

A PEOPLE'S GUIDE TO PACER

The Implications for the Pacific Islands of the
Pacific Agreement on Closer Economic Relations
(PACER)

Professor Jane Kelsey

Commissioned by the Pacific Network on Globalisation (PANG)

Final Report
August 2004



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Commissioned by the
Pacific Network on Globalisation (PANG)
PO Box 15473
5 Bau Street,
Suva
Fiji Islands
Phone: + (679) 3316 722
Fax: + (679) 3311 248
E-mail: pang@connect.com.fj
Website: www.pang.org.fj



Professor Jane Kelsey is a Professor of Law at the University of Auckland, New Zealand, where she teaches Law and Policy and International Economic Regulation. She is the author of the best-selling book *The New Zealand Experiment. A World Model for Structural Adjustment? (1995)* and numerous other books and articles on the regulation of the global economy.

Foreword

NGOs and church-based groups within the Pacific started to ask questions as soon as the Pacific Islands Forum announced in 1999 the creation of a free trade area for the Pacific. At that time (and in a sense still today) many of these civil society groups were struggling to comprehend the issues of free trade and globalisation, its technicalities and politics, and more importantly the various impacts on the communities, resources and small vulnerable economies of the Pacific.

The first glaring concern was the tremendous lack of public consultation and sharing of information on the negotiations by the Forum Secretariat and our own governments. They themselves said, at that time, that the creation of a free trade area was a defining moment in the history of the Pacific Islands Forum.

Why, then, were Pacific peoples denied the opportunity to be active participants and contribute to this defining moment in the region's history? What type of history was being created for us, and who was writing it, with what mandate? While elected governments were engaged in the negotiations, the lack of transparency, accountability and public participation in the process made a mockery of their much-publicised commitments to good governance and democracy. Information on the agreements and negotiations was closely guarded, and information that was released was heavily sanitised. The lack of critical studies on the impacts of the agreements raised serious concerns about the whole basis on which they were negotiating.

Concerns about the lack of public information, and a desire to promote informed discussion and debate on the free trade issue, motivated NGOs such as the Pacific Concerns Resource Centre (PCRC), the Pacific Island Association of NGOs (PIANGO), Development Alternatives with Women for a New Era (DAWN) - Pacific, and church based groups like the Ecumenical Centre for Research, Education and Advocacy (ECEA). These groups were determined that the region's civil society must not be caught napping and left without a voice, knowledge or awareness of these emerging issues.

A meeting of civil society groups from across the region on 'Globalisation, Trade, Investment and Debt' in 2001 saw the beginnings of the formation of the Pacific Network on Globalisation (PANG). They highlighted the need to address the lack of research from the NGO community, including analysis, information, statistics and data, which could inform our responses, actions, and campaigns on economic and trade affairs that affect our people.

The interim report *Big Brothers Behaving Badly* and this *People's Guide to PACER* were commissioned by PANG to focus particularly on the politics and implications of the Pacific Agreement on Closer Economic Relations (PACER), because the inclusion of Australia and New Zealand is where the Pacific free trade area process was being pushed, right from the beginning. More follow-up studies are needed, especially on the impacts of PACER and the links to the Cotonou negotiations with the European Union, to give Pacific peoples more information on where we could be heading and a stronger basis from which to be heard.

PANG would like to thank our partners Kairos-Canada and the World Council of Churches-Office of the Pacific for their support towards this project. We also want to thank Professor Jane Kelsey for her unwavering commitment and labour of love towards this project, as well as the courage to put herself on the line and face the wrath of leaders (including from her own NZ government) who feel their decisions and how they do things should not be questioned or challenged. It must also be said that since the Interim report *Big Brothers Behaving Badly* was released in April 2004, many government officials from Pacific Island countries have written or expressed privately to PANG their appreciation and commendation for the issues raised in the report.

This study aims to not only increase the literature available on free trade issues in the Pacific, but also to provoke thought, discussion and debate, and encourage people to speak out and take action regarding the issues at stake. It reiterates a call made by Pacific NGOs ever since the free trade area process began, that our governments heed the voices and concerns of their people before they decide to negotiate on any such agreement.

Stanley Simpson
Coordinator
Pacific Network on Globalisation (PANG)

Preface

This is the second of two reports prepared for the Pacific Network on Globalisation (PANG) on the implications for the Pacific Islands of a proposed free trade and economic integration arrangement with Australia and New Zealand. Those negotiations are mandated by the Pacific Agreement on Closer Economic Relations (PACER) that was negotiated between 1999 and 2001.

The first report entitled *Big Brothers Behaving Badly* drew on wide-ranging interviews with politicians, diplomats, trade officials, consultants, business people and NGOs, as well as published and unpublished reports and files at the New Zealand Ministry of Foreign Affairs and Trade. I would like to thank all those who shared their insights with me and assisted in accessing documentation; they bear no responsibility for the interpretation I have placed on that information.

That report provided an opportunity to air publicly the concerns that were expressed by many of those people about the process and substance of PACER and to challenge the overbearing behaviour of Australian and New Zealand government representatives. It also opened up questions about PACER to more intense media scrutiny and provided an impetus for debates of the kind that PANG and others have been calling for.

Big Brothers Behaving Badly was presented to Forum Islands Trade Ministers in April 2004 when they gathered in Port Moresby to discuss proposed trade negotiations with the European Union, followed by discussions with their Australian and NZ counterparts.

Because that report was speaking primarily to Ministers and officials of the Pacific Islands, it was written in quite technical language. It was called an "interim report" to signal the intention of preparing a second, less technical report that was specifically designed to inform and stimulate debate among Pacific peoples, including non-government organisations, trade unions, churches, media and other communities.

It was originally planned to release this second report at a parallel public meeting organized by ARENA, a New Zealand-based NGO, at time of the Forum Economic Ministers Meeting in Rotorua in June 2004. However, we decided it was more appropriate to hold the launch during the parallel meeting of Pacific Islands civil society organisations at the time of the Forum Leaders Meeting in Samoa in August 2004.

A People's Guide to PACER provides similar information to *Big Brothers Behaving Badly* in a more user-friendly style. Basic information about PACER is presented in a Question and Answer format and case studies are used to explore selected issues in more depth. Both reports should be read as complementary, so background information has not been repeated. The format is designed to provide a basic educational resource and training tool that can be altered and added to as PACER develops and more research is done on it and related issues, such as the WTO and Cotonou. Hopefully, this written material can be complemented by other creative resources, such as Internet sites, music and videos.

My goal is to empower people of the Pacific region to engage in critical decisions that will decide our future. I hope that this report will prove to be as effective as a catalyst for debate about PACER as the interim report has been and that it will help to raise awareness of, and activism around, all kinds of trade and investment negotiations involving the Pacific Islands in the years ahead.

Professor Jane Kelsey
August 2004

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Abbreviations

ACP	African, Caribbean and Pacific Countries
ADB	Asian Development Bank
APEC	Asia Pacific Economic Cooperation
AUSAID	Australian Agency for International Development
BAT	British American Tobacco
CMT	Cut, Make and Trim
COMESA	Common Market for Eastern and Southern Africa
DAWN	Development Alternatives with Women for a New Era
ECREA	Ecumenical Centre for Research, Education and Advocacy
EPA	Economic Partnership Agreement
EPG	Eminent Persons Group
ESA	Eastern and Southern Africa region
EU	European Union
FEMM	Forum Economic Ministers Meeting
FICs	Forum Island Countries
FTA	Free Trade Arrangement
GATT	(WTO) General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	General System of Preferences
ICS	Import Credit Scheme
ICSID	International Centre for the Settlement of Investment Disputes
IMF	International Monetary Fund
IPPA	Investment Promotion and Protection Agreement
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MSG	Melanesian Spearhead Group
NGO	Non-Government Organisation
NAFTA	North American Free Trade Agreement
NSA	Non-State Actors
NZ	New Zealand
NZAID	New Zealand Agency for International Development
NZPTC	New Zealand Pacific Training College
OECD	Organisation for Economic Cooperation and Development
PACER	Pacific Agreement on Closer Economic Relations
PACP	Pacific members of the ACP
PCC	World Council of Churches – Office of the Pacific
PCRC	Pacific Concerns Resource Centre
PICs	Pacific Island Countries
PICTA	Pacific Island Countries Trade Agreement
PNG	Papua New Guinea
REPA	Regional Economic Partnership Agreement
ROOs	Rules of Origin
RTFP	Regional Trade Facilitation Programme
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
SME	Small and Medium Enterprises
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPOCTU	South Pacific Council of Trade Unions
TCF	Textile, Clothing and Footwear
TNC	Transnational Corporation
US	United States of America
USP	University of the South Pacific
VAT	Value added tax
WTO	World Trade Organisation

1: A Historical Backdrop to PACER

Why are Australia and NZ pressuring the Pacific Islands for a free trade agreement?

This is the latest phase in a relationship that has its roots in colonisation. Australia and NZ made various commitments and concessions to the Pacific Islands following political independence in the 1960s and 1970s. Recent developments in the name of 'globalisation' have changed their attitude and led to demands for equal treatment that would cement Australia and NZ's dominance over the Pacific.

How is the history of colonisation still relevant?

Colonisation created a mutual dependency that continues today. Australia and NZ wanted to protect their economic interests after independence. Both countries profited by exploiting the resources and labour of the Islands in many ways – through plantations in Fiji and Samoa; by literally stripping the landscape of Nauru and Banaba islands to fertilise their farms; mining PNG and Bougainville; and much more. And they dominated the transport, communications and financial infrastructure that serviced these interests. The Pacific Islands were also an important source of cheap unskilled migrants that Australia and NZ used to fuel their economic boom and then excluded or deported when unemployment grew.

Why didn't the Islands go it alone after independence?

The Islands became *politically* independent, but their economies weren't sustainable without outside support. Almost all major businesses were foreign owned and there was little local money for investment. This meant governments became the main source of new economic activity and the main employer. To survive, they needed to build a sustainable local economy. Tariffs (border taxes) on imports helped protect small local producers from cheaper outside competition. Tariffs were also the main source of income for governments and, along with aid, were essential to maintain public services, utilities and employment. The Islands also needed to earn foreign exchange from exports. This depended on preferential access to richer countries who had a historical obligation to them - and who wanted to keep the Islands from siding with the communists during the Cold War.

What form did the special relationship with Australia and NZ take?

Australia and NZ's acceptance of real ongoing obligations underpinned their inclusion in the South Pacific Forum when it was established in 1973. In 1981 Australia and NZ guaranteed that 13 Pacific Island countries would have special access for a long list of exports under the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA). This was critical to the birth of the textile and garment industry in Fiji and survival of small export sectors in most of the Islands.

Was there any similar relationship between the Islands and other countries?

What was known as the Lomé Agreement was developed between European powers and their former African, Caribbean and Pacific (ACP) colonies. After Britain joined the European Economic Community in 1973, Lomé was gradually extended to include the Pacific Islands. Protocols for bananas and sugar, and duty free entry for canned tuna, have provided vital economic lifelines. The Marshall Islands, Federated States of Micronesia and Palau have their own special relationship with the US governed by Compacts of Free Association that provide trade access and other benefits.

Are these agreements still in place?

Yes, but all these countries are now saying that one-way benefits are no longer acceptable and they want two-way 'reciprocal' agreements.

Why are SPARTECA and Lomé under attack?

In the 1980s a philosophy known as neoliberalism took hold. The goal of a competitive global free market made it acceptable for richer countries to promote their self-interest ahead of colonial obligation. The collapse of the Soviet Union and end of the Cold War also removed the need to buy off poorer countries with promises of preferential treatment. The new buzzword - 'globalisation' - was portrayed as some inevitable, irresistible and irreversible force. The economic theory it was based on promised that everyone would benefit, not only the rich countries and their transnational corporations (TNCs). Those same TNCs were exploring new ways to increase their profits at home and internationally and lobbied their governments to deliver the policies and laws that were necessary to make that happen.

How could the major powers make poorer countries accept the globalisation model?

The IMF and World Bank developed a template of policies known as the 'Washington Consensus' (because Washington is where they are based). These are designed to let TNCs and financiers maximise their profits and minimise the barriers they face around the world. It covers every aspect of economic policy: fiscal, monetary, trade, privatisation, property rights, tax redistribution, free trade and investment, and more. In practice, this reaches well beyond the economy into social policy and the essence of government. Implementing these policies became the standard condition for poor countries to get loans from the international financial institutions.

Did richer countries adopt the Washington Consensus too?

In some richer countries, notably NZ, governments adopted an equally radical market-driven template. Others, such as Australia and the US, took a more pragmatic approach, mainly because of political pressure from their voters, businesses and unions.

Are these ideas still in fashion?

Although the Washington Consensus (and its later adaptations) reflects economic theories that are increasingly attacked, even by mainstream economists, it is still treated by these institutions as unquestionable and 'sound' and any other policy agenda is flawed and 'unsound'.

Where does trade fit into this model?

It is a key vehicle for opening countries to the TNCs. The most important step was the creation of the World Trade Organisation (WTO) in 1995. It oversees a raft of new agreements that go way beyond 'trade' to apply global market rules to services and ensure US-style intellectual property rules are applied across the world. In theory, these agreements require WTO members to implement free trade policies. In practice they are skewed to serve the interests of major powers and their TNCs. The WTO's mandate is to work with the IMF and World Bank to promote a coherent model of 'global economic policy making'. So all three powerful institutions push a globalisation agenda that limits the sovereign right of governments to choose their own policies - and denies their citizens the right to decide what development means and how it should be achieved.

How did this new model affect preferential trade agreements like SPARTECA and Lomé?

It became unacceptable to say that small, poor and vulnerable nations are structurally disadvantaged and need genuinely special and differential treatment. The theory insists that everyone benefits from global free markets, so poorer countries just need more time to adjust to new 'inevitable' realities. All trade agreements involving WTO members have to be compatible with WTO rules. Governments and exporters from other countries complained to the WTO that preferential trade agreements like Lomé distort the global level playing field, because every country should be treated alike. The WTO agreed that parts of Lomé broke the rules and it had to be brought into line. Likewise any new agreements, such as PICTA and PACER, that include WTO members (Australia, NZ, Fiji, PNG and Solomon Islands) must comply with WTO rules. This extends the reach of the WTO to countries that are party to those agreements, but aren't members of the WTO.

What role did Australia and NZ play in this transition?

They helped to lead it. In 1984 NZ began a radical free market 'experiment' that was hailed as an example to the world. Australia took a more pragmatic approach that caused less drastic damage to its economy and social fabric. Both countries were evangelists for 'free trade' and signed a groundbreaking free trade agreement (CER) in 1983. Australia drove the creation of the Asia Pacific Economic Cooperation (APEC) forum in 1989 to spur on regional free trade and investment, believing Asia was the key to the future (until the financial crisis of the later 1990s). They treated the Pacific as an inherited millstone - but one they were determined to keep under their control. In the later 1990s, as the gloss came off globalisation and the WTO began to unravel, richer countries began a scramble for regional and bilateral deals to protect their interests. Australia and NZ became interested in securing their own small sphere of influence in the Pacific once more.

Case Study 1: SPARTECA-TCF & Women Garment Workers

As garment manufacturers comb the world for lowest costs and highest profits, tens of thousands of women workers in Australia, New Zealand and Fiji are pitted against each other in a struggle to defend the low-wage jobs and minimal incomes their families depend on to survive. Outsourcing to sweatshops that pay sub-minimum wages is creating a new pool of (often illegal) migrant workers whom trade unions cannot protect and governments seem disinterested in. This is what free trade calls a 'success'.

Free Trade Zones were established by Fiji's Rabuka government after the 1987 coup and foreign factory owners were offered a reduced minimum wage for garment workers, de-unionised workplaces and a reservoir of urban unemployed who were desperate for jobs. New Zealand factories were the first to move, after their government began radically reducing tariffs in 1987. But Australian factories soon became the mainstay of Fiji's new low skilled and low technology Cut, Make and Trim (CMT) operations. In addition to domestic tariff cuts and Fiji's foreign investment incentives, the Australian government introduced a self-serving Import Credit Scheme (ICS). This allowed Fiji to include fabric sourced from Australia, but made elsewhere, as local content to satisfy SPARTECA's Rules of Origin. By 1999 Australia was taking 70% of Fiji's total textile exports. The ICS ran foul of WTO rules and was replaced in 2001 by the SPARTECA (TCF Provisions) scheme. A complex formula gave Fiji new ways to manipulate local content, but this has proved difficult in practice as well as offering little to Australian producers. SPARTECA-TCF was due to expire at the end of 2004. In August 2004 Australia announced it would be extended for seven more years with a review after three years.

In **New Zealand** repeated rounds of tariff cuts saw factories close or move offshore. Initially the threat to vulnerable Maori, Pacific Islands and Asian women workers came from Fiji. By the mid-1990s this was overtaken by imports from China, where labour exploitation made them even cheaper - despite still attracting tariffs and *before* China joined the WTO. Local factories tried to compete by using labour market deregulation to cut real wages and deunionise the workforce. By 1999 tariffs had been abolished on everything, except TCF where a campaign led by unions with small town mayors and local factory owners kept average applied tariffs at 19%. In 2003 the Labour government proposed to abolish all tariffs by 2010 to meet APEC's voluntary free trade deadline. Unions attacked the hypocrisy of a Labour government whose industry strategy was to produce high value outdoor clothing and chic fashion niche markets for export, which requires a critical mass and skill base, while it sought to strip out the remaining 18,000 jobs and infrastructure of the industry. The compromise - 10% tariffs by 2009 and another review - offered false security. Negotiations for a free trade deal with Hong Kong had been effectively stalled once it became clear this meant back-door entry for Chinese garments; but in April 2004 the government announced negotiations for a free trade agreement with China that signaled the final surrender of the clothing industry to free trade evangelism.

Jobs in **Australia's** TCF industry are also in decline. China is the prime competitor, but Fiji remains a significant player so long as tariffs and SPARTECA-TCF are in place. Australian government policies have been designed to support garment companies, textile manufacturers and brand name retailers. The cost is borne by 57,500-plus mainly women workers who have lost their jobs in three waves of tariff cuts since 1986 and factories relocated to Fiji or Asia, and an estimated 300,000 home-workers who who sometimes work up to 18-hour 6 or 7 day weeks for \$2 to \$3 an hour. A 2003 study showed only 21% of TCF workers made redundant had secured full time work after more than three years out of the workforce. A Productivity Commission inquiry into the industry's future was held in 2003. This led to a tariff pause with renewed cuts in 2010 to a 5% tariff level in 2015, plus a 10 year restructuring package that focusses on design, strong brands and new technology. This means fewer more highly skilled jobs, which many existing workers are not equipped to fill. As with NZ, this strategy will run alongside negotiations between China and Australia for a free trade deal that is bound to include textiles.

What does this mean for **Fiji**? The garment industry boomed, overtaking sugar as the main export earner by 1997. In 2000 it exported F\$200 million in garments to Australia, NZ, US and Europe. But almost two thirds of factories were foreign owned; many left after the second coup in 2000. A longer-term threat came from cheaper competition from China and East Asia, and NZ's decision in 2000 to remove tariffs on imports from all LDCs, including garment-producing Bangladesh. Although garments were still 33% of Fiji's total exports and 6.2% of GDP in 2002, output fell by 20%. Competitive pressure once more fell on women workers. Reported production costs of US\$5 for garments that sell for \$US50 reflect wages that are below the poverty line and unequal pay, which often exist alongside demeaning workplace practices and worse abuse, anti-family work hours, health and safety violations, and threats to union members. Yet 15,000 women garment workers depend on these jobs to provide direct and indirect support for one fifth of urban, and many rural, families. Ongoing tariff cuts in Australia and domestic pressure mean the benefits from renewal of SPARTECA-TCF will be short lived. Some factories may continue producing higher quality, short run, quick turnaround garments to Australia and NZ, and service the niche market tourist sector under PICTA. That will mean fewer, more highly skilled workers. There are potentially huge social costs and political consequences of large scale unemployment among the predominantly Indo-Fijian women workers at a time when men are losing jobs on sugar plantations and their families squat in urban slums.

This poses a regional challenge to trade unions, women and migrant rights groups and NGOs to develop a strategy to attack the free trade paradigm that is the driving force of exploitation and an integrated approach to secure quality and sustainable livelihoods for women workers based on cooperation rather than global market competition.

2: What 'Free Trade' Means for the Pacific

What does 'free trade' involve?

Traditionally 'free trade' is applied to food and goods. It requires all countries (including the Pacific Islands) to open their doors to every other country's products and remove any protections for their own. Binding and enforceable free trade agreements are designed to lock governments into that approach and can impose penalties on their exports if they break the rules.

How does this affect the Pacific Island economies?

There are several layers to Island economies. A majority of people live by subsistence in what is called the 'informal' economy. At the other extreme, many important economic activities such as mining, forestry, banking, tobacco, brewing and garments are controlled by foreign firms. Most local farmers, fishers, shopkeepers and other businesses in the formal economy sell their produce within the country and rely on the government to protect them from being overrun by cheaper foreign products. Some producers can also export fruit, fish, taro, timber or clothing to Europe, Australia, NZ and the US because they have preferential access to those countries under historical agreements such as SPARTECA and Lomé. This means they don't face the same level of tariffs (border taxes) that are imposed on similar products from other countries. Sometimes they also benefit from special entry quotas or guaranteed prices. It is these protections that are stripped away in the name of 'free trade'.

What changes do 'free trade' rules require?

There are two basic rules:

1. Products from all countries must be treated the same. So preferential trade deals that give Island products better treatment than products from other countries are no longer acceptable.
2. The Islands can't discriminate against foreign produced goods and must treat them like they would similar local products. So the Islands have to stop protecting their local producers.

What does this really mean for the Islands?

'Free trade' theory pretends that the global marketplace is a level playing field where the Islands will get access to new markets for their exports in return for opening their own borders. In reality, 'free trade' agreements are a new form of colonisation. Signing up to these rules will allow richer countries and their corporations to dominate economic life in the Islands. It will force many local producers to close, people in paid work will lose jobs and the Islands will become even more dependent on imports, including essentials such as food. There will be very few - if any - benefits for their exports in return.

What kind of 'protections' would have to go?

There is a standard list of unacceptable 'trade barriers' that the Islands have to reduce or abandon:

- *Tariffs*, which are a tax that makes imports more expensive than locally produced goods so as to protect local producers who can't otherwise compete, and to provide governments with revenue;
- *Import quotas*, which restrict the amount of a particular food or good that can be imported;
- *Import licenses*, which restrict who is allowed to import food or goods and the kind and amount that they can import;
- *Temporary bans on imports* of a particular food or good so a new local business can get established (known as an 'infant industry') or because a sudden flood of imports has swamped a local producer and threatens their survival (an 'emergency safeguard' measure);
- *Subsidies* to exporters that make their products cheaper on the international market (export subsidies) or that help local producers compete against imports or guarantee them a minimum price (domestic support);
- *Bans on imports* because of health, sanitary, cultural or conservation reasons where they are not backed by clear-cut scientific evidence.

What is meant to be achieved by removing these 'barriers' and will it do that?

People who support 'free trade' argue that:

- Competition from imports will force local firms to become more efficient.*

But we know that few local producers will be able to compete with cheaper food and goods from countries that have bigger scale and higher-tech producers. Instead of becoming more efficient, many local business, farmers and workers are likely to lose their livelihoods.

- If Islands have to stop producing what they can't produce as efficiently as other countries they can refocus their resources on what they can produce better than any other country (known as their 'comparative advantage').*

But there are very few high-value foods and goods that Pacific Islands can produce more efficiently than other countries. They are too small scale and remote with high transport costs and lack the necessary skilled workers, technology and capital. Realistically, few foreign investors will bring those inputs to the Islands. Unrestricted global competition means most Islands will be left selling unprocessed natural resources like fish, timber or minerals to other countries that make the big profits out of 'adding value'. And a natural disaster can wipe out those natural resources overnight.

- It is a better use of the world's scarce resources for the Islands to import food and goods that are produced more efficiently and cheaper than locals can produce them.*

But if local producers are driven out of business and an Island becomes dependent on imports, especially of food, it has no guarantee of food security. This is especially serious if it can't earn the foreign currency from exports that it needs to pay for those imports.

- The cost of business closures and job losses is outweighed by benefits to consumers, because foreign food and goods will be cheaper once tariffs have been removed.*

But in practice foreign producers and 'middle men' tend to increase their prices when tariffs are removed, so they take the benefit rather than passing it to consumers. Even if imports do become cheaper, they may be undesirable replacements for healthier local products – as with mutton flaps and milk powder.

- Tariff cuts force governments to raise revenue in ways that don't disrupt trade.*

But this usually involves a value added tax (VAT) and/or 'user charges' on public services that hit poorer people harder than import taxes that tend to be highest on luxury items. New taxes also increase poor people's need for cash in Islands where most people live from the land and the sea, supported by remittances from overseas. More dependence on cash incomes will increase the drift to the towns, and associated problems of unemployment and squatting.

Does this argument only relate to food and goods?

Similar arguments are made in favour of 'importing' services from foreign firms (ranging from banks, telecoms and electricity to education, health and water supply) rather than the Islands supplying their own services. This assumes that all those services can be run by private (foreign) firms based on a commercial user-charge. Free trade rules on services mean removing restrictions on foreign firms that want to provide those services and treating them as well as local providers, including state-owned firms, are treated. That can include rights to public subsidies.

Isn't this a recipe for economic and social chaos?

Free traders agree that unemployment and business closures are inevitable costs of 'adjusting' to the global marketplace, but they insist that these costs are short term until new economic growth occurs. They ignore the real social, economic and political costs to the Islands and their people or what happens if – when - their theory fails.

Case Study 2: Business Perspectives on PITCA/PACER

There are very mixed views about the desirability of PICTA and PACER among Island businesses. This reinforces the need for governments, business organisations, trade unions and ordinary citizens to investigate and debate the real world impacts on Pacific Islands producers, workers, consumers and communities.

Grant Percival, President of The Samoa Association of Manufacturers and Exporters, in response to the interim report *Big Brothers Behaving Badly*, 6 April 2004

PICTA, which is the region's alone, has been in effect 12 months and guess what, none of the Governments have put the enabling requirements into effect, so private enterprise cannot take advantage of free trade yet. Rules of origin are still being developed and yet they want to go to stage 2 and introduce trade in services. Countries are having real difficulties trying to develop free trade rules among themselves and the attempt to open up trade for services is ridiculous. Forget about NZ and Australia. We would be swamped and be unable to even deal with who is who - and even more important what is Australasian and what is passing through. ROO (Rules of Origin) are causing concern for trade between Australia and New Zealand with its greater sophistication and higher levels of expertise and manpower levels. It would be impossible to monitor from Samoa or any other Pacific island country. We also need to get real - only NZ really truly practices free trade - most of the free trade countries only give it lip service. Australia has non-tariff barriers that keep South Pacific products out that they view as a threat to Queensland interests. Subsidies are still in place in many areas - the USA and EU are the worst at subsidies, you only have to watch the news to see it. In addition some products banned in their countries as unsafe for public consumption are supported for export (they contain unacceptable levels of growth hormones etc) and South Pacific countries cannot afford to ban the products for 2 reasons: retaliatory action and loss of income for influential powerful people. We do not even have legislation to protect against dumping, not even a definition of such a term.

Mark Halabe, Managing Director, Mark One Apparel, Fiji, abridged from "Free Trade to Boost Garment Industry", *Wansolawara*, June 2004:

Free trade with Australia and New Zealand could be the best thing to happen to the manufacturing sector in the South Pacific in the last 20 years. Pacific Islands countries, particularly Fiji, will be advantaged in the manufacturing and service industries once PACER is implemented. Due to the high transportation cost within the vast (Pacific) ocean, there is a possibility that Australia and New Zealand will look for places in the Pacific to set up manufacturing outlets. The [garment] industry would have doubled its present size if not for the coups in 1987 and 2000. Trade bans imposed by the unions after the May 19 coup adversely affected the industry. The findings of a report on the possible restructure of the local garment industry is expected to identify strategies that would enhance the textile industry's international competitiveness. The study is seen as critical for the industry with the onset of free trade, which would mandate the remove of the preferential trade agreements Fiji enjoys with some countries. PACER will not make everybody happy. People have not actually worked out who the real beneficiaries would be and how much the Pacific islands will lose by accepting the agreement. Australia and New Zealand are not motivated by their own best interests. They are our neighbours and have security and humanitarian reasons for helping the Pacific as well. Countries that readily accept aid from Australia and New Zealand should allow them some say in their internal affairs.

Taito Waradi, President of the Fiji Chamber of Commerce and Industry, abridged from 'Liberalisation policies face friendly fire', *Fiji Times*, 6 April 2004

The FCCI has been concentrating on developing Business Incubation Centres in the 14 provinces to allow for the development of small to medium enterprises. The chamber, which represents both corporate and small enterprises, is not too impressed with any attempt to throw wide open the doors of the Fiji economy to foreign businesses. While trade liberalisation is meant to achieve greater efficiency and higher growth rate, it can also adversely effect the ability of SME (small and medium enterprise) to export since they would have to compete with imports that we don't really need. And because of their economic power and economies of scale, imported products can be dumped on our shores at below cost. Rather than adopt totally the idea of a free trade area in the Pacific including Australia and New Zealand, he advises caution. There is no doubt that there is growing concern about employment, or the lack thereof, throughout the Pacific region. Mr Waradi says economic marginalization should take the blame and he expects that rather than providing greater opportunities for employment, liberalisation will slash the hopes of growing SMEs to take some of the unemployment pressure.

3: Understanding PICTA

What does PICTA stand for and who negotiated it?

PICTA stands for the Pacific Island Countries Trade Agreement. Only Forum Island Countries can join it. All of them were involved in the negotiations that ran from 1999 to 2001. But it doesn't bind any one of them until that government 'ratifies' the agreement. This is usually a decision of the *Executive* (Cabinet or King), even though the agreement restricts the policies and laws that *parliaments* can adopt in the future.

Which countries does PICTA apply to?

At least six countries had to ratify PICTA before it came into effect on 13 April 2003. Currently the Cook Islands, Fiji, Kiribati, Nauru, Niue, PNG, Samoa, Solomon Islands and Tonga have done so. Vanuatu and Tuvalu have not. The three Compact States (Federated States of Micronesia, Marshall Islands and Palau) have 3 years to decide whether to join, because they would need to give the US the same concessions they give to the Pacific Islands under PICTA.

What does PICTA require countries to do?

All countries that are bound by PICTA must allow goods from other PICTA members to enter without restriction, by a certain date. That means no tariffs, no quotas limiting the amount of a good that can be imported and no import licenses that require permission to import goods. So long as an Island remains a party to PICTA, it can only lower its tariffs and restrictions on other Islands' goods; it can't increase them. Once they have reached zero, it can't reintroduce them.

What if this creates a real economic, employment or social crisis?

Tightly worded rules allow some temporary measures in economic emergencies (such as balance of payments), to protect local industries that risk being swamped by a rush of imports and to protect health, environment, morals, natural treasures or address food shortages. Those exceptions may not go far enough to address the problem. In that case the government's options are to break the rules and face trade penalties or to withdraw from PICTA altogether.

What kinds of products are covered by PICTA?

PICTA only covers trade in *goods* - mainly food, fish, clothes, manufactures and equipment – but it can be extended. There are currently proposals to cover *services*. That would guarantee firms from one Island the right to deliver services in the others and to be treated as well as local firms.

Does PICTA apply to all goods?

Tobacco and alcohol were initially excluded for two years so governments could study the possible impacts. That's partly because tariffs on 'sin' products are important for revenue but also because cheaper imports would have a serious impact on local producers and local jobs. That deadline has been extended and no decision has yet been made.

When do countries that signed PICTA have to remove their tariffs and restrictions?

PICTA requires the 'developing' Forum Island Countries to do so within 8 years (2010). The Small Island States and 'Least Developed Countries' (Cook Islands, Kiribati, Nauru, Niue, Samoa, Solomon Islands plus Tuvalu, Vanuatu and Republic of Marshall Islands if they join PICTA) have 10 years (2012). Each country has its own schedule for cutting its tariffs that is annexed to the agreement. .

Can countries hold back any products of special importance to them?

Countries can protect sensitive products until 2016, if they have listed them in the Annex. These are known as the negative list. PNG has listed 87 items, which has outraged Fiji's manufacturers as Fiji has not listed anything and this makes PNG more attractive to Australia and NZ.

What happens when a product isn't 100% locally made in one of the Islands?

To qualify for 'free trade' under PICTA a product must satisfy Rules of Origin. These set a minimum level of local content (materials and labour) before a good is accepted as the product of a country. Local content can be hard to measure and they are having problems agreeing on a formula.

How might PICTA affect the Islands in practice?

The trade effect on the level of imports and exports will be very limited because there isn't a lot of inter-Island trade. This might increase once it becomes cheaper to import products tax-free from other Islands than continuing to import them from other countries (this is known as 'trade diversion'). But that effect will only last so long as there are tariffs on imports from non Island countries.

What kind of non-trade effects might PICTA have?

❑ *Governments lose revenue and/or raise taxes on the poor*

Most Islands rely on tariffs for between 20% and 70% of their government's income. If they remove tariffs, they lose this income. They have to find new sources of income, such as privatisation, user charges or a new tax and/or cut spending, jobs and services. The most common advice is to introduce or increase Value Added Tax (VAT). But tariffs tend to be highest on luxury imports that richer people buy. VAT usually applies to everyday items and necessities. So the burden of paying taxes shifts from the rich to the poor. That also increases their dependence on cash income, especially wages and remittances, in countries where most people live by subsistence.

❑ *Production and jobs shift from other Islands to Fiji.*

Products that rely on imported inputs won't satisfy PICTA's Rules of Origin (ROOs), so they won't be able to compete in the regional marketplace with products that use locally made inputs and become tariff free. This means that production is likely to concentrate in countries whose products meet the ROOs, especially if they also have advantages of size, technology and transport systems. Fiji is most likely to benefit from this. Investment in new enterprises that create new jobs is also likely to focus on the 'hub' of Fiji. Some other Islands will face significant closures and job losses. None of this is good for Pacific relations.

❑ *Unregulated regional monopolies charge extortionate prices*

Firms are likely to concentrate their production and investment in countries that meet PICTA's ROOs and have economies of scale. When the regional market is too small for two large competitors to operate profitably regional monopolies will emerge. Their behaviour can't be regulated effectively by individual Island countries. That will increase pressure to establish a regional competition body; but the idea is problematic and unlikely to be agreed in the short term. As a result unregulated monopolies will be able to charge what they like – quite the opposite of the price cuts and consumer benefits that are meant to compensate for higher VAT. The risk of profiteering will increase if firms think their monopoly will be short lived – for example, if competing imports from Australia and NZ will become tariff free in just a few years.

❑ *Increased unemployment and poverty*

'Free traders' insist that inefficient businesses must be allowed to fail so investors will put their money and skills into more profitable activities. This makes 'structural adjustment' inevitable as factories and producers in some Islands go out of business and many wage workers face unemployment. Even assuming the promised new businesses do emerge, structural adjustment will increase the burdens on the subsistence economy in the meantime and governments will face demands to provide better safety nets from falling revenue. If the 'adjustment' provokes a recession, VAT will be an unreliable alternative source of income. If governments try to increase the VAT level to compensate, they will deepen the tax burden on the poor, unemployed and subsistence workers.

❑ *The free trade model fails and provokes a social crisis and political instability*

If the free trade model fails many Islands will face an economic and social crisis. If governments are unable to respond by reimposing tariffs, because PICTA says they can't, and they cut government spending instead, they risk creating worse social unrest and political instability. Loans from the Asian Development Bank (ADB) and aid from Australia and NZ are likely to be conditional on the Islands continuing with 'sound' free trade policies and intensify the crisis, as happened recently in Argentina. These impacts may be felt hardest in smaller Islands whose producers become uncompetitive and where wage work depends on that small number of enterprises. The resulting instability could easily spread across the region.

Case Study 3: Lessons from Studies on Tobacco & Beer

Professor Wadan Narsey prepared a paper for the Forum Secretariat on the implications for government revenue of including alcohol and tobacco in PICTA. The Forum has declined to release the study, but Narsey set out the basic argument in a conference paper in February 2004. It is presented here in two parts.

1. Pacific Islands governments, companies, workers and the public are not prepared for the effect of PICTA. Gains to some Islands under PICTA will mean the closure of businesses and loss of jobs in others. Their governments are likely to react in a knee-jerk manner and pull back – as has already happened with the Melanesian Spearhead Group. Producers who do gain benefits from PICTA especially in larger countries, are likely to find these disappear under PACER. Moves to take advantage of short term gains from PICTA may therefore be ill-advised.

Alcohol and tobacco are important sources of production and employment and a vital source of tariff revenue for most Islands.

British American Tobacco (BAT) owns all tobacco production in the Islands. The plants in Solomon Islands, PNG and Samoa rely on imported inputs and would not satisfy the Rules of Origin under PICTA. Because Fiji uses locally grown tobacco, BAT is likely to shift its production to Fiji and operate a regional monopoly from there. But the gains will be short term. If the free trade area is extended to Australia and NZ, the company is likely to exit Fiji and export to the Islands from its plants in Australia, NZ or both.

The largest and most efficient breweries are in Fiji and PNG, and possibly Samoa. The Australian Fosters Group owns controlling interests in Fiji and Samoa, but only gets part of the profit from those operations. It gets all the profit from the beer it exports from its wholly owned company in Australia. Under PICTA the company might opt for economies of scale by expanding its plants in Fiji and Samoa and marketing beer aggressively in the other Islands. This would displace some or all beer production in Vanuatu, Tonga, Palau and Cook Islands. Or Fosters might issue franchises to some of those breweries. Either way, some Islands would increase production and employment at the expense of others. This would be a short-term gain. Under a free trade agreement with Australia and NZ, Fosters would service all Pacific consumption from Australia.

Narsey suggests that similar arguments can be made for almost all manufacturing. He questions whether the Island governments should be encouraging the expansion of firms to take advantage of PICTA that will not survive when those preferences disappear - especially if those firms become even more important to that Island's economy and employment, which places the government under even more pressure to keep them going once they become inefficient or unprofitable under PACER.

2. Pacific Islands need to think ahead. They should give priority to negotiating the best possible deal with Australia and NZ, who will be their major trading partners in the long term.

Narsey is concerned that Island governments are placing too much emphasis on negotiations with the EU under the Cotonou Agreement without thinking through the consequences. It is tempting for them to think that major concessions might increase their bargaining power with the EU at little cost. The Islands don't import much from the EU, so removing tariffs would have relatively little impact. But this also means that the EU doesn't have much to gain so it isn't likely to offer much in return. If the Islands had to extend those same concessions to Australia and NZ, from which they import a huge amount, the impact on government revenue and the costs of adjustment to the loss of businesses and jobs would be enormous. Narsey says it would be a mistake for the Islands to deal with the EU first and have to make similar concessions to Australia and NZ without being able to make real demands of them in return. They should be dealing with both sets of negotiations at the same time.

Narsey wants Australia, NZ and the Islands to begin negotiating a South Pacific Economic Community now. He criticises Australia and NZ for complaining about the Island economies when they haven't invested in areas where there is real potential (such as value-added forestry) to help reduce the government deficits and dependence on aid, which they constantly criticise. Likewise, Australia and NZ drain the skilled and professional workforce, while shutting their doors to the small number of unskilled workers who want to come from the Islands to do work their own people aren't interested in. He argues for "specific programmes of development co-operation that will result in enhanced levels of investment (both domestic and foreign), higher rates of sustainable economic growth, and most importantly, retention of skilled persons in the FICs, and the regulated access of FIC unskilled labour to the labour markets of Australia and NZ."

These options are certainly worth discussing. But they are not achievable within the legal framework and deregulated market model that PACER prescribes. To open up the possibility that Australia, NZ and the Pacific Islands can pursue a different development paradigm PACER must first be set aside.

4: Understanding PACER

What does PACER stand for and who negotiated it?

The **P**acific **A**greement on **C**loser **E**conomic **R**elations was negotiated alongside the Pacific Island Countries Trade Agreement (PICTA) by all Forum members, including Australia and NZ.

Which countries does it apply to?

To come into effect PACER had to be ratified by 6 Forum members, including Australia and NZ. This was a lower threshold than PICTA and ensured that it came into force first, on 3 October 2002. As of July 2004, PACER applies to Australia, Cook Islands, Fiji, Kiribati, Nauru, NZ, Niue, PNG, Samoa, Solomon Islands and Tonga. As with PICTA, Vanuatu and Tuvalu haven't joined and the three Compact States (Federated States of Micronesia, Marshall Islands and Palau) have 3 years to decide.

What do countries that join PACER have to do?

PACER has some obligations that apply straight away. For example, all PACER members are supposed to work together to promote 'free trade', especially at the World Trade Organisation (WTO). Australia and NZ also promised to help fund a Regional Trade Facilitation Programme for the Islands. The more potent obligation comes into effect later: the parties to PACER must begin to negotiate a free trade and regional economic integration arrangement by 2011, at the latest.

How do PICTA and PACER relate to each other?

Officially, PACER is the main 'umbrella' agreement and PICTA is the lesser one. That's not how most of the Island governments see it. They wanted a PICTA-style arrangement among themselves, but Australia and NZ insisted on being included. Rather than becoming full members of PICTA, Australia and NZ had to settle for a promise of negotiations by 2011 or earlier if certain triggers were activated. They say that has now happened and that negotiations should begin.

What has happened with the immediate obligations under PACER?

They are moving very slowly. The most controversial aspect is the promise that Australia and NZ would help fund a Regional Trade Facilitation Programme, which means streamlining and upgrading customs, biosecurity and quarantine type processes. This was an incentive for the Islands to accept PACER. But Australia and NZ only said they would *help* fund such a programme, with other unspecified donors, and gave no guarantee that this would involve new money rather than funds from some other Pacific project. In July 2003 Australia and NZ rejected the first funding proposal and told the Islands' Trade Ministers to cut it back. A Memorandum of Understanding was supposed to be signed in December 2003, but Australia and NZ said they would only pay half of the much-reduced package the Islands were asking for. Signing was rescheduled for April 2004 – and deferred again until September 2004.

Is this just Australia and NZ being miserly?

Some defend Australia and NZ, saying the Islands need to be realistic about what they can implement. Other Island governments consider this as a fundamental breach of good faith. Vanuatu's Trade Minister told the *Vanuatu Daily Post* on 14 April 2004:

This trade facilitation funding was the price Australia and New Zealand agreed to pay for access to our markets. They shouldn't try to weasel out of their commitments. It is about time Pacific Islands said Enough is Enough – we don't want to appear protectionist, but we can't agree to open up our markets and lose hundreds of millions of vatu in Customs revenue when Australia and New Zealand are offering so little in return.

What about the promise to cooperate on common interests, such as the WTO?

This assumes that PACER members are on the same side at the WTO. In the current negotiations Pacific WTO members (Fiji, PNG and Solomon Islands) have more in common with other poor, small and vulnerable countries. Australia and NZ have opposed them on most key issues. There is even less common cause with those Pacific Islands that are currently trying to join the WTO who complain that Australia and NZ are making excessive demands.

How have the Island members of the WTO reacted?

Fiji's Trade Minister Tavola expressed their frustration at the WTO ministerial meeting in Cancun in September 2003:

The WTO claims to be a multilateral trading organization, which addresses the circumstances of all its Members, and whose rules provide a balance of advantage for all its constituents. However, this is unfortunately not true for the small, vulnerable economies whose limited negotiating capital and small size limit their ability to cope with the complex multilateral rules, does not allow for effective bargaining to secure specific measures which address our development needs, and thus has prevented us from participating effectively in the negotiation of WTO provisions more suited to enhancing our welfare.

Is there any aspect of PACER that has been implemented?

Australia and NZ promised technical assistance for Island governments to negotiate and implement free trade and investment agreements, including WTO accession. Most of this comes via the WTO in Geneva or in joint workshops with the Forum. The latest was in Suva in May 2004. Such programmes have been strongly criticised by Southern governments, NGOs and social movements as vehicles to push the priorities of the WTO Secretariat and more powerful countries. It doesn't allow the recipients to choose their own advisers, design their own programmes and develop their own strategies and positions – let alone to challenge the WTO's globalisation paradigm.

If this is all window dressing, what is PACER really about?

PACER requires Forum Island Countries to negotiate a trade liberalisation and economic integration arrangement with Australia and NZ no later than 8 years after PICTA came into force (2003) – or earlier if negotiations are triggered in one of several ways. The most important trigger involves negotiations for a Pacific Regional Economic Partnership Agreement with the EU. These were scheduled to begin in September 2004. At the least, Australia and NZ want to ensure that any commitments the Islands offer to the EU are also given to them – which could go way beyond trade in goods to include services, investment and more.

What would a free trade arrangement with Australia and NZ look like?

The Preamble talks about sensitivity to poverty, sustainable development, and governments' right to regulate for social objectives - but this can only occur within the framework of free trade and global economic integration. Anyway, preambles don't carry any legal weight. Only the articles of PACER have teeth. These say that any new arrangement

- *can't be less favourable to the Islands than existing arrangements* (remembering that they lose value as Australia and NZ eliminate their tariffs for other countries);
- *must recognise differences in development status* (usually meaning a longer time frame);
- *must treat all Islands equally, aside from their development status;* and
- *must treat Australia and NZ equally.*

Are there any other requirements?

A new arrangement must also be consistent with PACER's 'objectives' and 'guiding principles'.

- The core *objectives* are to create a framework that leads to a single regional market, based on trade and competition. It must be compatible with the WTO and help the Islands to integrate into the global economy. It also promised technical assistance and support to minimise the disruption and costs of 'adjustment' this causes.
- The 5 *principles* (sustainable development; gradual and progressive integration; recognising the needs of least developed countries and small island states; freezing of current levels of liberalisation; and best endeavours to follow international best practice) sound benign. But they all have hidden meanings that reinforce the market model. Based on past behaviour, Australia and NZ are likely to use them to push for the 'highest quality' free trade rules they can get.

Case Study 4: Who Wants More Mutton Flaps?

The New Zealand government's trade policy is driven by its obsession with agriculture. Even where it already dominates a market, it demands new concessions or commitments that might create a precedent for demands of other countries. Equally, it won't accept 'low quality' commitments that might be used to undermine NZ's hard line approach with countries that really matter. The needs of those countries and their people are subordinated to NZ's global trade strategy. Most stories about the PACER negotiations said NZ was less badly behaved than Australia. It is generally the opposite for Islands seeking to join the WTO. It seems likely that NZ will make similar demands if it gets to negotiate on free trade in agriculture under PACER.

Tonga is currently applying to join the WTO. In April 2004, New Zealand's Trade Minister hailed the terms on which NZ had agreed to this as saving NZ exporters \$6 million in tariffs. In revenue terms that means Tonga, which currently draws over 40% of government revenue from border duties, will need to make up a \$6 million fall in revenue from somewhere. The options are user charges, broader sales tax or a consumption tax - in a country where 80% of the people are subsistence farmers whose cash income is largely from remittances. Reports suggest that similar demands are being made of Samoa in its WTO accession negotiations. Why, when Tongans and Samoans are already buying NZ's products, even with the tariffs? Primarily, it is about creating precedents. But those precedents also have consequences.

Around one third of New Zealand's meat exports into the Pacific are a fatty waste product known as 'mutton flaps'. New Zealand supplies around one third of Tonga's imports. About one third of that is foodstuffs, including a large proportion of mutton flaps. According to trade theory, consumers will benefit by lower prices once tariffs are removed and people will buy more of the product. Although experience suggests that the exporters and distributors tend to increase their prices almost back to the previous level, there are also sound development reasons for hoping that prices for mutton flaps from NZ won't fall.

A World Health Organisation report in 2001 drew explicit links between dependence on imported foods, especially mutton flaps, diet-related disease and trade liberalisation. It found that people were making conscious decisions to eat less healthy foods because they were cheap and available:

"One effect of globalisation has been to increase reliance on imported foods, rather than traditional foods. Imported high fat-content meats, especially corned beef, mutton flaps, and chicken parts, are among the main causes of the rising rates of noncommunicable diseases. Although educational programmes have increased awareness about healthy diets and nutritional foods, people in the Pacific nonetheless choose to consume less-healthy foods because of cost and availability (i.e. they make economically rational, but nutritionally detrimental decisions to consume certain foods). Thus, poor diet is not simply a health or health-education issue, it is also economic...."

Healthier low-fat Tongan sources of proteins, such as fish, generally cost between 15% and 50% more than either mutton flaps or imported chicken parts, and in many areas mutton flaps and imported poultry were more easily purchased than indigenous chicken. Not only are the health consequences of these imported foods detrimental, but the availability of these cheap imports is also constraining the development of domestic markets. Food security and balance of trade have long been of concern in the Pacific, but in Tonga the negative balance of trade is critical. Food imports are significant factors in both issues...."

It appears that the solution to diet-related non-communicable diseases in Tonga cannot be based solely on nutritional education. Both the problem and the solution appear to involve economics. One possible answer would be to follow the example of Fiji and ban the importation of fatty foods. Other policy alternatives would promote the development of sustainable indigenous fishing and farming industries that could make the preferred and healthier traditional foods readily available at a reduced cost. However both these solutions could run afoul of the GATT and WTO [and therefore PACER]... It behoves national policy-makers to be aware of the health impact of "commodities of doubtful benefit", and of the role of trade in the health of the population." [Abridged from M Evans et al, (2001) 'Globalization, diet and health: an example from Tonga', 79 (9) Bulletin of the World Health Organisation 856]

Tonga has urged the NZ government to end mutton flap exports and encourage a return to healthier traditional diets, such as fish, organic chicken and taro that simply can't compete in Tonga's small domestic market. There is no sign of that happening. When questioned about this, NZ Samoan MP Taito Phillip Field said NZ would not "interfere...with what Tongan business people decide to buy into Tonga."

Fiji, a WTO Member, has imposed a ban on mutton flaps, claiming there are proven links to obesity. New Zealand threatened retaliation at the WTO, but has backed off doing so. It would be interesting to know whether it fears losing the case - or fears being exposed to accusations that it knowingly dumps unhealthy waste products on the Pacific Islands. People might also ask why NZAID bothers to fund health education programmes in Pacific Islands such as Tonga.

5: The Origins of PICTA & PACER

Where did the proposal for a Pacific free trade area come from?

The idea has been around for a long time. The possibility of establishing a free trade area for the South Pacific Region was first mentioned when the South Pacific Forum was established in 1973. That mandate was passed on to the Forum Secretariat when it was created in 1991. The first concrete moves came in July 1997 when a proposal for a Pacific Regional Trade Agreement was endorsed by the Forum Economic Ministers Meeting (FEMM).

Why did the Island governments support this step?

According to the Forum's then Secretary General Noel Levi:

We are mostly small and isolated and lack any influence as individual countries. A free trade area creates a larger economic unit or bloc that gives us a stronger foundation for responding to globalisation and universal trade liberalisation ... The more the region acts as a group, the more political influence it will have. A regional trade agreement will be important both economically and politically.

He broke this down into five reasons:

1. It would create a market of 6 million people, which would allow countries that had limited domestic markets to expand their production.
2. Globalisation is changing the world. While there are costs and benefits to this, the Islands have to embrace globalisation or become even more marginalized.
3. The Islands are losing their preferential access to Europe under the Lomé Convention and to Australia and NZ under SPARTECA, so they have to find some alternatives.
4. A free trade agreement among the Islands is a manageable 'stepping stone' to larger and more challenging agreements, because it requires less radical changes that have lower 'adjustment' costs.
5. By joining together, the Islands will be in a stronger position to negotiate collectively with bigger players, such as Australia, NZ and the EU. (Other supporters saw a broader political purpose: they believed that regional economic integration would allow the Islands to streamline their bureaucracy and lay the foundations for a political federation.)

Was there any discussion of alternatives?

There is no evidence of that. Levi bought into TINA – There Is No Alternative - with a sense of inevitability:

This process is not of our making but we cannot sit there and do nothing while the foundations of our economies are being removed. . . We must prepare ourselves for the changes in global trade now underway. These changes are inevitable as is the need for us to respond or else we get left further behind.

How did the Forum Ministers start developing the idea?

The 1997 meeting of Forum Economic Ministers commissioned two reports.

- The *first* looked at the economic benefits and costs of a *free trade agreement among the Islands* only. It concluded that such an agreement would produce only about A\$5 million in benefits – although it said this would require policy changes that would increase efficiency and prepare the Islands for the next steps towards integration into the global economy.
- The *second* looked at *including Australia and NZ in an agreement* and was funded by them. Using the same computer modeling as the first it calculated that a broader agreement would produce gains of A\$200 million. The fine print actually said that 8 of the 14 Islands would be *worse* off economically, but relied on economic theory to claim that even they would benefit by embracing globalisation.

The reports were presented to the FEMM in June 1998. The Australians presented theirs with a slick power-point presentation. The Ministers approved negotiations for an agreement that included Australia and NZ, to be spread over 20 years.

So the initial idea was to include Australia and NZ?

Yes, but over 20 years. That probably seemed a long time! The hiccup came when lawyers hired by the Secretariat warned that if a deal included Australia and NZ it had to satisfy the WTO rules for regional trade agreements with 'developed' countries. This meant it would have to cover almost all trade among all the countries involved and be completed within 10 years.

How did the Island governments respond?

The first ever meeting of the Forum Trade Ministers was held in June 1999. They decided to proceed with an Island-only agreement, along with some ambiguous wording about providing for its application to Australia and NZ. The Forum Leaders meeting in October 1999 endorsed the proposal with wording that was also (deliberately) ambiguous.

How did Australia and NZ react?

They were most unhappy. Australia's Foreign Minister Alexander Downer apparently instructed his officials to oppose any agreement that excluded Australia and said nothing could be called 'Pacific Regional' unless Australia was involved. NZ was initially more relaxed, but joined forces with the Australians when the first formal text made it clear that they had no guarantee of inclusion.

Why were Australia and NZ so angry?

Initially it was a matter of status. As founding members of the Forum, they were not prepared to be left out of its most significant economic initiative and lose any influence over its future direction and membership. Later, it also became a matter of protecting their Pacific patch. When the Islands signed the Cotonou Agreement with the EU in 2000 they promised to negotiate a Regional Economic Partnership Agreement that would come into effect in January 2008. Australia and NZ were outraged that the EU might secure better treatment than them. Australian officials spelt this out in their evidence on PACER to the Australian Parliamentary Treaty Committee in 2002:

The first [objective] was political. We did not want the island countries, using the forum label, developing a free trade agreement between themselves which ignored Australia and New Zealand. For reasons of state we thought, "We're members of the forum; we deserve to be included in some way". Secondly, a practical or economic interest of ours was to ensure that, whatever trade liberalisation occurred between the island countries, if it were extended to other states such as the United States, Japan or the EU, it did not disadvantage our trading position.

Weren't they also concerned about protecting their economic interests?

That was always an underlying motivation. But there didn't seem much risk that lower priced competition from Europe would seriously erode the dominance of NZ and Australian exports and companies in the Pacific Islands. They have a huge trade imbalance in their favour (exporting far more to the Islands than they import) and tariffs haven't been a major barrier. But they obviously also welcomed any opportunity to increase their exports to the Islands if tariff cuts made their products even cheaper and to open up new opportunities for their services companies and investors. The best way to do that was through a binding trade agreement that required Island governments to open their doors to foreign goods, services and investments, and penalised them if they tried to turn back.

What happened with the PACER negotiations?

The process was coordinated by the Forum Secretariat's trade division, which hired consultants to produce a series of reports. Officials from the Forum countries did the hands-on negotiations. They reported to their Trade Ministers who made the political decisions. Those were generally rubber stamped by the Forum Leaders Meetings. The negotiations went on for more than two years. The text went through at least four major variations before Australia and NZ were prepared to let it be signed. By then, the main focus – an Island-only agreement (PICTA) - was described as subordinate to the 'umbrella agreement' (PACER) that included Australia and NZ.

Case Study 5: When Consultancy Becomes Propaganda

As soon as they became aware of the PICTA/PACER negotiations Pacific NGOs, notably ECREA and PANG, began asking for a social impact study. They wanted a genuine participatory assessment of what a Pacific free trade agreement might mean for the lives of people and their communities, and for the environment, culture and democratic government of each of the Islands. They knew that these trade agreements are binding and it would be very difficult for governments to withdraw even if the impacts proved catastrophic. That's why they insisted that the study must be completed before governments committed themselves to either PICTA or PACER.

The consultancy reports that the Forum Secretariat commissioned on PICTA/PACER were the exact opposite. They were little more than window dressing to support a political decision that had already been made. But they also helped shut down any debate or criticism. Each one, including the so-called 'social impact' report, was built on the initial report that said a Pacific free trade agreement was a good thing. Produced by free trade economists they never questioned the globalisation model. Because they were kept secret until the negotiations were over, their flawed assumptions and disputable conclusions went unchallenged.

These reports weren't concerned with the real world. They used standard computer generated economic models whose highly questionable assumptions virtually guarantee a favourable outcome. 'Trade' is treated as a purely economic activity through which commodities and services are exchanged in a market. The social and cultural dimensions of activities like growing food, fishing or teaching are stripped away. Countries involved in trade are treated like abstract economic units that have no national and international context, history, structural inequalities and power relations, as if Kiribati and Australia can exist as equals on a level playing field. The impact on individual Islands or the entire Pacific region is 'aggregated', which hides the uneven distribution of 'gains' across class, gender, age, ethnicity and location. All the bigger picture impacts on social inequality, political stability, environmental sustainability, self-determination and democracy are simply ignored. And because it is assumed that the model will work, the costs of 'adjustment' are rationalised as inevitable short-term pain to achieve long term gain.

Even when the figures didn't look good, the consultants fell back on economic theory to say free trade was still a good idea. The most outrageous example was the Australian consultants' report that said the Islands would benefit most from an agreement that included Australia and NZ. The modeling actually predicted that only the Cook Islands, Fiji and PNG would make significant gains – and that was based on ideologically-driven reasoning that (a) they had the highest tariffs and removing those tariffs would produce the greatest benefits by increased efficiency and lower prices to consumers; and (b) their massive loss of revenue from tariffs could be simply made up by increasing VAT. Using the same reasoning, it said there would be little impact on Nauru, Federated States of Micronesia and Palau because their levels of trade and/or tariffs were very low. That left eight countries - Marshall Islands, Kiribati, Niue, Samoa, Solomon Islands, Tuvalu, Tonga and Vanuatu – which the modeling said would suffer significant revenue losses and which did not have a VAT to compensate. Logic would suggest that an agreement which is predicted to leave 8 out of 14 countries worse off is a bad idea. Instead, the report claimed that even those countries could benefit because: *'Economic theory tells us that open, outward looking economies can deliver higher living standards than protected, inward looking economies.'*

The so-called 'social impact study' was just as deeply flawed:

- it was premised on the first economic consultant's report that concluded the agreement was a good thing.
- it was written by a free trade economist with help from a sociologist, which resulted in a series of disjointed sociological observations being injected into a narrow economic framework;
- the terms of reference were limited to PICTA, because PACER was seen simply as a commitment to negotiate an agreement sometime in the future and therefore had no measureable impact; and
- because PICTA was predicted to produce very limited economic benefits, its social impacts were also assumed to be minimal and concerns about its impact were therefore deemed 'groundless'.

Perhaps the most telling admission in the 'social impact study' was that achieving even the \$5 million benefits from PICTA required other policy changes including labour market deregulation, fiscal discipline, downsizing the public sector, guaranteed property rights and commercial deregulation. In an act of pure ideological faith, it concluded that this package would result in lower unemployment, rising incomes, better living standards and improved status for women - despite the mass of international evidence that such policies almost always deepen poverty, inequality and instability.

This study was the worst form of tokenism. It wasn't presented to the Ministers until the meeting where they signed the agreements. Because it was kept secret until then, there was no possibility to contest its approach and conclusions. Worse, it presented a 15-year framework for 'later quantitative studies of the actual, observed, social impacts' of PICTA and all other agreements the Islands signed. Despite extensive NGO criticism, Forum Secretariat officials reported in March 2004 that they were about to commission another consultancy report that would prepare a mainly quantitative framework for monitoring the impact of all free trade and investment agreements in all Pacific Islands countries – again, after the agreements have been signed.

6: The Power Politics of PICTA & PACER

How did Australia and NZ get the Islands to agree to PACER?

Basically, they used their dominant position as 'big brothers' in the region to pressure the Islands into a deal that went further than they wanted to go.

What kind of pressure did they use?

There were various ways. The worst involved outright bullying, mainly by Australian government representatives. They reportedly shouted and harangued officials, politicians and consultants who wouldn't agree to what they wanted. According to one consultant:

The public behaviour of the Australian officials at some of the meetings was appalling. Their anger at 'being crossed' by the Secretariat and the Pacific Island countries was palpable. The not-too-subtle implication was 'we've paid for all of this, why are you being so ungrateful in excluding us'. Their private behaviour, at its worst, descended to levels that I regard as totally unacceptable. The whole experience was stressful and demoralising for me, let alone for the Pacific Islands negotiators. There were times that I felt ashamed to be a New Zealander; I was just pleased that I was not an Australian.

Was the bullying always this direct?

Australian and NZ Ministers and Ambassadors also undermined the position of the trade negotiators by calling on senior politicians in their capitals. The politicians generally didn't understand the finer details of the negotiations and were often prepared to make diplomatic statements that then were used to challenge what their negotiators were saying. This is a common tactic used at the WTO.

Were there other kinds of pressure?

At times, negotiators from the Islands were overwhelmed as teams of specialist trade officials from Australia and NZ presented a stream of new proposals. It is said that only Fiji, PNG, Samoa and the Cook Islands played an active role in the meetings – and they lacked the resources to assess the full legal and economic implications of proposed changes to the texts, let alone the non-economic impacts. Even the Fijian government had no specialist trade lawyer on its team. There were also cultural factors at play. Australia and NZ have a very aggressive approach to trade negotiations. When the Island negotiators disagreed with them, they generally remained silent. Australia and NZ took that as consent. Some negotiators who were prepared to speak out felt they had to limit their interventions because speaking too often would reflect badly on their country.

What role did the Forum Secretariat play?

The Secretariat faced a dilemma. Its mandate is to represent all Forum members, so Australia and NZ expected it to take a neutral position in this highly adversarial process. Technically it did so. But there is no doubt that the Secretariat's priority, or at least that of its trade division, was to service the needs and preferences of the Islands. The Forum's trade officials and consultants were put under enormous pressure for doing that.

Why didn't the Island governments just say 'no' to Australia and NZ?

Sometimes they objected – there are even suggestions that the Samoan government formally complained to Australia about how its officials behaved. But behind-the-scenes pressure, and the ever-present reality of aid and trade dependency on Australia and NZ, made it difficult for even the unhappiest Island governments to exclude them altogether.

How did Australia justify its behaviour?

Publicly Australia it said it was acting in the spirit of regional solidarity. Foreign Minister Alexander Downer told the Australia Fiji Business Council in December 1999:

It is better to take steps towards becoming globally competitive by firstly competing with Australian and New Zealand goods and services, where island countries will be operating in a sympathetic environment, with countries that understand the island countries' needs and requirements and are strongly committed to their development

Their behaviour showed the exact opposite.

What about New Zealand's 'special relationship' with the Pacific?

They were just as focused on their own interests. One NZ government representative has confirmed privately that *'when it comes to trade, there is no "special relationship" with the Pacific. The negotiators do a group hug, then put their Geneva hats on.'* In other words, NZ's international trade strategy takes priority. Former Associate Foreign Affairs Minister Matt Robson likewise observed, in response to a review of NZ's aid agency in 2001, that NZ has a policy 'of ensuring that our political needs are met first and foremost before the development needs of other countries'.

Is that just in relation to PICTA and PACER?

No. It is the same at the WTO. PACER talks about common positions, but there's no evidence that Australia and NZ have supported Pacific Island member of the WTO on critical issues; quite the opposite. Indeed, Samoa has described NZ as the biggest obstacle in its tortuous process of trying to join the WTO. NZ has also put pressure on those who give advice that it doesn't like. The lead adviser during the PICTA/PACER negotiations later became the deputy head of trade at the Commonwealth Secretariat and was targeted by NZ and the UK because of the advice he was giving Small Island States about the WTO. In October 2003 *The Guardian* newspaper revealed a letter from a senior British official to a NZ diplomat which discussed plans to spy on the adviser at the ministerial meeting in Cancun and the need to make sure that he wasn't reappointed. The UK government has since apologised.

How do they get away with this?

The secrecy that surrounds these negotiations benefits the powerful. If these bullying tactics and unreasonable demands had been more widely known, negotiators and ministers could have used this to strengthen their hand. Instead, the negotiations were conducted behind closed doors. Consultation was limited to selected members of the private sector. The consultants' reports were kept confidential and effectively remained unchallenged.

How have Australian and NZ governments reacted to these disclosures?

When the interim report *Big Brothers Behaving Badly* was released in April 2004 the Australian government didn't say anything publicly, although its Public Service Commission asked for a copy. The NZ Trade Minister went over the top. He insisted to the media that Australian and NZ officials had behaved "impeccably".

There is absolutely no merit in the story whatsoever. New Zealand does not go around bullying Pacific Island countries. Quite on the contrary [sic] we concentrate our overseas development assistance in the Pacific, and we try to help them.

Without having read the report, he dismissed it as the product of interviews with anti-globalisation campaigners around the region. The Minister then let fly with a stream of personal abuse directed towards the writer that effectively confirmed the allegations that the report had made. Subsequently, senior trade officials have engaged in more constructive dialogue and Samoan negotiators report that the behaviour of their NZ counterparts has noticeably improved. However, better-behaved officials pushing the same damaging agenda hardly solves the problem!.

How have the Island governments reacted?

As expected, most political leaders deny publicly that they were bullied. For example, Cook Islands Prime Minister Robert Woonton told ABC Radio:

Quite the reverse. I think we are bullying Australia and New Zealand in many respects to recognise our special needs.

The Kiribati High Commissioner to Fiji, on the other hand, told the USP students newspaper *Wansolawara* that the report *added valuable insight into the trade agreements. "I see some merits in the arguments put forward by Professor Kelsey which I believe will be useful to us in our review exercise in these trade agreements."*

Privately there has been ongoing encouragement and support from a number of politicians, officials and advisers who are pleased that the story is now in the public arena and that public debate about the issues has begun.

What about the Forum Secretariat?

Their main response has been defensive, claiming the Islands knew exactly what they were doing – although Secretary General Greg Urwin diplomatically described the report to *Wansolawara* as a 'useful contribution for debate'.

Case Study 6: Why Join The WTO?

Nothing mocks the WTO'S claim to be 'development friendly' more than the power politics of accession – the process of joining the WTO. Three Pacific Islands – Vanuatu, Tonga and Samoa - are currently going through this tortuous process. But the problem is not just the process; it is also the global market model of 'development' that the WTO would lock those countries into. Because the negotiations are shrouded in secrecy, there have been no genuine social impact studies and no informed public debate. Critics and analysts – let alone parliamentarians and citizens – generally have no idea what is at stake. These are not negotiations about 'trade'. They effect the affordability of medicines for life threatening diseases; local processing of timber and fish to ensure jobs and ecological sustainability; survival of small local shops that are overwhelmed by growing numbers of foreign wholesalers; retention of land in customary ownership - all have the potential to make or break Island governments and decide the future of their societies.

The problem, according to a senior Samoan adviser, is that the supposedly 'rules based organisation' has no rules. Others with an intimate knowledge of Vanuatu's stalled accession put it more sharply: 'the accession process has no rules, except precedent and power, and is the very antithesis of what the members publicly state to be the intention and design of the WTO'. Any existing WTO member can appoint itself to the Working Party that is deciding the terms on which each Island can join. They have to reach a consensus. That effectively gives each of them a veto and lets them make outrageous demands that go beyond existing WTO rules and commitments. Their demands usually have nothing to do with the particular country. It is all about creating precedents to provide leverage in other WTO negotiations or the accession of important countries like China or Russia. Each favourable new precedent sets a progressively higher benchmark.

The Islands are reduced to pawns in a global chess game. Their own needs or the harm that will be caused if they give in to those demands are treated as irrelevant. The most pressing 'demandeurs' have been Australia, New Zealand and the EU – plus the US, even though it barely trades with the Islands. Australia and NZ have been especially determined to secure 'high quality' precedents on agriculture. Each country has its own story.

Vanuatu began the process under strong pressure from the ADB as part of its bailout package in 1997. It signed off on the accession package in 2001 under enormous pressure from the US. It had cost US\$20,000 a year for observer status – which is the entire budget of the Department of Trade. By the end, Vanuatu owed the WTO US\$170,000 in unpaid fees. Days before it was due to join, the government decided it had given away too much away and pulled back. Recently, Vanuatu has begun to reactivate the process. But it wants to reopen the final package and withdraw wholesale and retail trade, health, sewage, refuse disposal, sanitation, education, and audiovisual services from the far-reaching services offer it was bullied into making by the US. Vanuatu also wants to be covered by the waiver given to poorer WTO members to import cheaper generic drugs for HIV/AIDS and other serious diseases. But there is no legal basis for revisiting an accession, so Vanuatu is once more at the mercy of the existing WTO members especially the US. Given this history - and Vanuatu's decision not to join PICTA and PACER - the reactivation of its WTO accession is very puzzling.

Tonga began its process in 1996 and has yet to satisfy US demands. It is equally unclear why it is joining. Tonga faces many export barriers: its small scale, limited land, access to finance, natural calamities and climatic conditions, falling commodity prices, low priced international competition, remoteness, high transport costs, insufficient expertise and advice on diversification, and burdensome product standards set by richer countries. None of these will be addressed through accession. Indeed, the incredibly wide ranging promises it is making will mean a massive loss of tariff income, growing trade and balance of payments deficits, closure of local food producers and loss of jobs, huge costs of implementing complex intellectual property and phytosanitary laws and foreign control of services. And it says all the necessary laws will be passed by 2007.

Samoa applied for accession in 1998 and is 'taking its time'. The government is especially angry about NZ's demands. Its senior trade consultant told the Samoa *Sunline*: "If New Zealand doesn't agree for us to be a member, we are not going to be one. . . One would expect that Australia and NZ will understand about us more, not the European Union or America. If New Zealand insist [on making excessive demands] the Government will have to decide whether the price of joining the WTO is too high – it is as simple as that". Officials concede that joining the WTO offers no real commercial gains, but they hope that it might make Samoa more attractive to foreign investors and give them a voice at the table.

The Pacific Islands have nothing to gain and everything to lose from joining a club that has such potential to devastate their economies, cultures and societies, and to create enormous instability and turmoil in an already unstable region. Once they enter the WTO, they will be trapped within an economic paradigm of global markets that is being pushed by the World Bank, ADB and IMF, and that is profoundly anti-development and anti-democratic. Why are Australia and NZ so determined that these countries should join, on their terms? Why are those governments agreeing to play such a dangerous game? And what does the requirement that free trade agreements with Australia, NZ and the EU under PACER and Cotonou are 'WTO compatible' means for those Islands who choose not to join the WTO?

7: PACER's 'Triggers'

What is a 'trigger' in a trade agreement?

A decision or process that sets something else in train. PACER has a number of triggers that can set off negotiations towards a 'free trade arrangement' between Australia and NZ and the Forum Island members. If none of the triggers is activated these negotiations must still begin 8 years after PICTA came into force (meaning 2011).

What is the purpose of having such triggers?

The guarantee of negotiations in 2011 is not as much economic use to Australia and NZ if the EU, Japan, Singapore, South Korea or Taiwan get such a deal before them. They also have concerns that any deals between the Islands and other countries could undermine their own status as Forum members and allow other powers to exercise greater influence in the Pacific.

What kind of actions by the Islands would 'pull the trigger' earlier than 2011?

There are three situations where the Pacific Islands who are parties to PACER would have to offer to Australia and NZ what is described as 'consultations with a view to negotiations' for a free trade arrangement before 2011. These apply is

1. any **one** of those Islands **begins** formal negotiations for a **free trade arrangement** with a **developed** country outside the Forum eg. Kiribati with Japan)
2. any **one** of those Islands **concludes a free trade arrangement** with a **non-developed** country outside the Forum whose GDP is higher than NZ's (eg. Fiji with Singapore)
3. **all** Forum Island Countries who are party to PICTA **jointly begin** negotiations for a **free trade arrangement** that would include at least **one non-Forum country** (eg. all Pacific Islands countries with the EU under the Cotonou Agreement).

That all sounds pretty technical!

Each trigger has a complicated combination of requirements. So it is important to read them very carefully and there is plenty of room for argument. Depending on how the Islands go about their dealings with other countries, it may be possible to avoid pulling any of these triggers before 2011.

What is most likely to pull one of PACER's triggers?

Negotiations between the EU and the Pacific Islands for a Regional Economic Partnership Agreement (REPA), based on the framework and timetable set out in the Cotonou Agreement 2000. These are scheduled to begin in September 2004.

So Australia and NZ are competing with the EU?

Yes. Australia and NZ are desperate to stop the EU 'stealing a march' on them in their only real sphere of influence. Any access the EU gets, they want too. But they will want more if the EU settles for very little. The EU has the upper hand, because the Cotonou agreement says:

1. the Islands' preferential access rights for tuna, and quotas with guaranteed prices for sugar, will both end in December 2007 when the WTO waiver that allows these arrangements runs out. By contrast, PACER promises that preferential access for Island exports under the SPARTECA treaty will continue until a new arrangement is signed (although that's not worth a lot these days).
2. the deadline for concluding the REPA negotiations is December 2007 to come into effect on 1 January 2008. PACER doesn't have a deadline for negotiations to begin or end.
3. Cotonou is a package that combines aid and trade. Aid funding is specifically quarantined from developments under PACER so it can't (legitimately) be used as a tool in the trade negotiations – or lack of them.

Are Australia and NZ being kept informed of what is happening with the EU?

No, and they are really frustrated about that. They argue that formal negotiations between the EU and Pacific ACP countries began back on 27 September 2002 and the Islands should have already set in train 'consultations leading to negotiations' for a free trade arrangement. The Island governments insist that their negotiations with the EU have not *formally* begun - and until they decide what form those negotiations might take, it is impossible to know whether they will activate any of PACER's triggers. Therefore there is no need for them to do anything yet.

How have Australia and NZ responded?

They have appealed to the 'spirit of PACER' and the 'spirit of the Forum' and asked the Islands to agree to a two-phase negotiating process similar to Cotonou.

1. They would hold preliminary consultations to decide the likely coverage, content, procedures and administrative aspects of future negotiations. They would also discuss a process for consultations, followed by preliminary negotiations, on fisheries, tourism, investment and trade facilitation, safeguards, dispute settlement and rules of origin.
2. A later stage of negotiations would look at increased access to Islands' markets, especially by removing tariffs and quotas. This would occur alongside similar discussions with the EU.

What if the Pacific Islands refuse to negotiate when Australia and NZ say they must?

PACER's triggers are not enforceable, except for a requirement to engage in good faith consultations to sort out any dispute.

Can Australia and NZ 'trigger' the negotiations themselves?

If either Australia or NZ begins formal negotiations for a 'free trade arrangement' with a country outside the Forum it must offer each Forum Island Country the chance to negotiate for better market access – but not a full free trade arrangement. Australia and NZ offered this when they began negotiations with the US and Singapore/Chile respectively. The offer wasn't taken up, but Australia is likely to be asked to pass on to the Islands any better deal it has given to the US.

Is there any other way that negotiations under PACER can begin?

Any party to PACER can ask the rest to begin negotiations for a free trade arrangement or extend the existing arrangements. Alternatively, all the parties can agree to begin negotiations for a free trade arrangement as part of the three-yearly reviews of PACER. Given the history of resistance to such an agreement, it seems unlikely that the Islands would all agree to do so.

What happens to Forum Island Countries that are not a party to PICTA or PACER?

They are not affected by any of this. But they can take part in any consultations and negotiations that are triggered. As of July 2004, that applies to Vanuatu, Tuvalu and the Compact States.

If the triggers aren't pulled, what happens?

Those Islands whose governments have signed onto PACER still have to begin negotiations with Australia and NZ in 2011. But the scope of those negotiations is quite vague and there is no deadline for reaching an agreement – indeed, there is no legal obligation ever to reach an agreement, only to negotiate towards one in good faith.

What happens if there is no new arrangement?

PACER says that SPARTECA would continue, but its value will continue to fall as Australia and NZ abolish tariffs on (almost) everything. Australia might keep tariffs in the garment sector, but that is covered by a special agreement that runs until 2011. The impact of these developments is very real. But giving unrestricted access to Australia and NZ for their goods and services under PACER, and receiving nothing new in return, is not the solution.

Case Study 7: How to Disarm PACER'S Triggers

If the Islands do negotiate with the EU there are numerous ways they can avoid PACER's two main triggers.

Trigger 1: all Forum Island Countries who are party to PICTA jointly begin negotiations for a free trade arrangement (FTA) that would include at least one non-Forum country

- ❑ *They could negotiate something less than a 'free trade arrangement'. A FTA has a very specific meaning defined by the WTO: it must cover 'substantially all trade' among the countries involved. So the Islands could begin negotiating a deal that only covers specific products of importance to both sides, such as tuna and sugar.*
- ❑ *Only some Islands who are parties to PICTA could begin negotiations with the EU. It would just take one PICTA member not to negotiate with the EU to avoid this trigger. Samoa, the Solomon Islands and Kiribati could accept the EU's offer to 'least developed' countries (LDCs) of the Everything But Arms arrangement. That would give them duty free access to the EU from 2005 for 'essentially' all products. This has its own fishhooks - 'essentially' still lets the EU exclude its most sensitive products, which may be of greatest significance to the Islands. Some LDCs could also be reclassified in the future and lose this access.*
- ❑ *One or more of the Islands could negotiate with the EU for something less than a FTA, such as a commodity-specific agreement.*
- ❑ *The Islands could negotiate in two or more groupings, such as the LDCs and 'developing' countries. The trigger requires all the PICTA members to negotiate jointly.*

Trigger 2: any Forum Island Country that is party to PACER begins formal negotiations for a free trade arrangement with a 'developed' country outside the Forum.

- ❑ *Individual countries could negotiate with the EU for something less than a FTA, as with Trigger 1.*
- ❑ *Each Island could continue to delay entering 'formal' negotiations as long as possible.*

Other options for disarming the triggers:

- ❑ *Islands could say it is 'not practicable [to offer] consultations with a view to negotiations' while they are engaged in negotiations with the EU, WTO and WTO accessions, because they don't have the capacity to undertake them all.*
- ❑ *They could offer 'consultations with a view to negotiations' for a FTA, but not reach agreement. This is delicate, as international law requires states to act in good faith and not to have a pre-determined strategy to make the negotiations fail.*

Even if they avoid the triggers Australia and NZ are still guaranteed 'consultations' in 2011.

To avoid negotiations under PACER altogether calls for more radical options:

- ❑ *Don't ratify PACER.* Islands that have not yet ratified PICTA and PACER (Tuvalu, Vanuatu, the Federated States of Micronesia, Marshall Islands and Palau) should stay out.
- ❑ *Withdraw from PACER* No country is tied to PACER or PICTA forever. Any government can withdraw by giving 180 days notice to the Secretary General of the Forum Secretariat.
- ❑ *Terminate PACER.* PACER no longer exists if all Parties withdraw. Australia and NZ aren't about to do that. But a significant number of Forum Island governments could indicate their intention to withdraw from PACER and strip it of any credibility and legitimacy.

When the price of PACER is properly investigated these radical options may seem justified. Obviously there are risks that Australia and NZ would retaliate against the Islands in other ways. PACER says trade negotiations *should* be kept independent of other aspects of the relationship, such as aid or technical assistance, but Australia and NZ would bring huge pressure to bear. On the other hand, that's happening already and it needs to be challenged publicly and on its own terms.

This would still leave the Islands tied into PICTA, Cotonou and/or the WTO.

PACER is only one part of a much bigger picture. True. Similar thinking needs to be applied to PICTA, Cotonou and the WTO. It is much easier to avoid signing up to a binding agreement than it is to escape from one. The more agreements the Islands sign, the tighter the noose of globalisation will become.

8: The PACER/Cotonou Nexus

What is the background to the EU's trading relationship with the Pacific Islands?

Since 1975 the EU has given exports from the African, Caribbean and Pacific (ACP) countries preference over goods from other countries through the Lomé agreements. This is why the Pacific Islands enjoy a 24% margin of preference over many other countries for canned tuna and they receive a guaranteed price for a sugar quota that is linked to prices the EU pays its own sugar producers.

Why is this changing now?

There is a general shift away from taking responsibility for the colonial legacy these imperial powers have left behind them. In 1996 the EU signaled that it wanted to shift from a preferential arrangement to a two-way 'reciprocal' free trade and investment agreement. That was made easier when the US, (on behalf of its transnational fruit company Chiquita) along with banana-growing countries like Ecuador got a ruling from the WTO that preferences the EU gave to bananas from ACP countries discriminated against banana exporters from other countries. This ruling was likely to have flow on effects for other commodity-specific agreements, such as tuna.

How did the EU respond to the WTO ruling against the ACP bananas?

The EU told the ACP countries that the Lomé preferences would have to end. It asked the WTO to issue a temporary waiver until February 2000. This was renewed until the end of 2007, but the EU said it wouldn't apply for another waiver (although of course it can and is likely to do so when the Cotonou negotiations run out of time). This gave the EU the leverage it needed to pressure the ACP countries into agreeing to negotiate new reciprocal agreements. Those negotiations are meant to be concluded by December 2007 and implemented on 1 January 2008 when the Lomé waiver expires.

How is the renegotiation of the EU/Pacific Island relationship meant to work?

The negotiating framework was agreed between the EU and ACP countries in the Cotonou Agreement in June 2000. Of the 78 ACP countries that signed the Cotonou Agreement, 48 are African states, 15 are Caribbean and the remaining 15 are from the Pacific. Cotonou is based on the idea of regional and sub-regional negotiations. This allows the EU to streamline the process - and helps explain why the EU was so supportive of the Pacific creating its own regional trade arrangement and reportedly helped to bankroll the PICTA process.

What has been happening with the Cotonou negotiations?

Phase I began in September 2002 and was supposed to settle broad issues across the entire ACP group. The ACP wanted those core principles finalised before any regional negotiations began. Even though many issues remain unresolved, the EU has insisted that ongoing discussions should run in parallel with Phase II negotiations at the regional level. Four of the seven regional negotiations have now begun. Negotiations for a Pacific REPA are scheduled to begin in September 2004.

Why is the EU interested in a free trade agreement with the Pacific?

It isn't really. Cotonou is about the EU renegotiating its relationship with Africa. It has little interest in the Pacific, aside from fisheries, shipping/marine transport and tourism. Some hope that the EU will be willing to strike a 'soft' deal with Pacific Islands in a few areas of mutual benefit. If it does, it won't offer much aid and adjustment funding in return. It seems more likely that the EU will adopt a uniform position across all ACP countries on key issues, so it doesn't create any 'soft' precedents that could undermine its demands in Africa. It also wants to achieve binding rules on investment through REPAs that the ACP countries have been blocking at the WTO.

How different are the demands of Australia and NZ under PACER and the EU in Cotonou?

Cotonou is much more specific about the issues to be negotiated and the timetable to begin and end. But those are details. Essentially Australia, NZ and the EU are playing the same game:

- Both PACER and Cotonou promote treaties that go beyond traditional free trade agreements to cover much broader areas of economic policy. They talk of 'economic integration' and 'economic and trade cooperation' respectively.
- Both have to be compatible with the WTO, so they only recognise the global market model and effectively extend WTO rules to cover Island countries that aren't members.

- Both are demanding that the Islands swap preferential trade agreements for reciprocal deals that give the goods and firms from rich countries more access to the Islands without making any new trade concessions in return. The WTO rules on regional trade agreements say this must cover 'substantially all trade'; that phrase leaves enough room for larger countries to protect their small and most sensitive sectors as long as they want to.
- Both are powerful enough to dominate negotiations to advance their global game plan.

What does this mean for the future EU relationship with the Pacific Islands?

Cotonou talks about close cooperation between the EU and ACP in 'identifying and furthering common interests' and assistance with WTO accession. Yet they have been in direct conflict over almost every issue in the current WTO Doha Round. The EU promises to be sensitive to the needs of developing countries, especially small vulnerable economies and LDCs; but its Trade Commissioner insists that those countries must give the EU more access to their markets and accept investment rules that only serve the interests of major corporations. The EU has been less aggressive than Australia and NZ over WTO accessions but many suspect that is because they intend achieving their goals through the REPA.

Does the EU behave better towards the Pacific Islands than Australia and NZ do?

They are pretty similar. The EU has been accused of using the WTO ruling on bananas to justify its plan to renegotiate the Lomé agreement. By only seeking a short waiver until 2007 it pressured the ACP countries to endorse a negotiating framework that reflected the EU's objectives and marginalised ACP concerns. The EU is also accused of playing 'divide and rule' between the various parts of the ACP group by demanding that they negotiate in seven sub-regional groups, each of which has its own subdivisions of LDCs, small island and landlocked states, and larger 'developing' countries.

What is at stake for the Pacific Islands under Cotonou?

The Pacific Islands don't export many products to the EU. That is unlikely to change because the problems they face involve distance, scale, transport costs and competitiveness rather than tariffs and quotas. The big trade issues are fisheries and sugar, and possibly shipping and tourism.

- If the 24% margin of preference for canned tuna goes, the job losses could be devastating. It is possible that the EU might do a separate deal on fish, because that is worth real money to its companies; but the fisheries-rich Islands, such as Kiribati, already have bilateral deals and are not keen. It is also unclear what the EU might pay for a fisheries deal and to whom.
- Fiji is mainly interested in what happens to the Sugar Protocol. The price it receives depends on the EU retaining its sugar subsidies. They are being challenged at the WTO by Australia, among others, and will be quarantined from the REPA negotiations until the WTO appeal process has been exhausted.

Which is the priority for the Islands – Cotonou or PACER?

Cotonou is likely to take priority because:

1. the threat that non-reciprocal access rights, quotas and guaranteed prices will end in December 2007 when the WTO's temporary waiver for Lomé expires seems very concrete;
2. there is E20 million in special programme funding available to the ACP to finance seminars, impact studies and technical assistance, in addition to the 9th European Development Fund allocations; and
3. less is at stake. Tariff cuts for EU imports would have much less impact on the Islands because of the low levels of trade involved – unless those same concessions have to be given to Australia and NZ. That is not legally required under PACER, but it a strong expectation, so what is negotiated with the EU has flow-on effects.

Cotonou will still have a potentially devastating impact. It covers services, investment and government procurement, involving much bigger TNCs than in Australia and NZ. The scary thing is that negotiations are due to begin when so little is known about what is happening, what it might cover and what is at stake.

Case Study 8: How East & Southern African NGOs Respond to Cotonou

A unique feature of the Cotonou Agreement is the formal requirement on ACP governments to consult with 'non-state actors' (NSA). The term NSA is deceptive - it covers the business sector and lobbyists for the rich and powerful, as well as progressive NGOs, social movements and trade unions. And in an uncharacteristic concern for sovereignty, Cotonou says governments should choose which NSAs are involved. This allows more critical social movements, NGOs and trade unions to be excluded. Even if they are included, the market-driven principles that are required to underpin any treaty under Cotonou (and provide the means for eradicating poverty!) are not open for debate. This is a process of co-option, where the pretence of consultation is used to legitimate a pre-determined agenda and outcome. The only role it leaves for an 'active and organised civil society' is to implement the globalisation agenda. What happens if non-state actors say there should be no such deal and their Island governments should instead endorse a model of empowerment, development and poverty elimination that is designed by Pacific people themselves? The following extract explains how some African NGOs are tackling these issues.

Yash Tandon, 'The ESA-EU EPA Negotiations and the Role of COMESA', *SEATINI Bulletin* June 2004 [Abridged]

"The Common Market for Eastern and Southern Africa (COMESA) is the principal agency for facilitating the negotiations for an Economic Partnership Agreement (EPA) between the twenty-five members of the European Union (EU) and sixteen countries in the eastern and southern African region (ESA). The EU negotiates as a bloc. It has legal status, institutional structure, a powerful functioning bureaucracy that sits in Brussels, and a team of skilled negotiators under the authority of a single EC Trade Commissioner.... The 16 African countries do not have legal status as a bloc. Nor do they have a formal structure of decision-making, nor an operational bureaucracy. It is in this context that COMESA (which effectively means its Secretariat) provides programmatic and logistics support to the 16 countries that constitute the ESA negotiating group. It faces a formidable challenge of giving the much-needed unity of purpose and at least some sense of direction to the 16 countries. Under the circumstances, the COMESA Secretariat is doing a commendable and heroic job....

SEATINI has been asked by the COMESA Secretariat to join in the ESA Regional Negotiating Team. As a member of the civil society, SEATINI has its own mandate and constituency. It has its own unique perspective that is different, and may be in some ways complementary, to that of the COMESA Secretariat. Furthermore its views may not agree with those of some of the governments of the 16 countries. Nonetheless, whilst not pretending to speak on behalf of the wider civil society, SEATINI can help bring on to the table the voices of the people otherwise not represented in the official negotiations. Besides civil society, these include the parliamentarians, the trade unions, the private sector, and the popular media. All these are weakly organised, and lack both the institutional and technical capacity to take part in the negotiations in a meaningful and effective manner. SEATINI too has limited capacity, and is indeed challenged by other demands on its resources, such as the continuing negotiations under the WTO. It hopes more NGOs – such as MWENGO based in Harare and Econews based in Nairobi – are also brought onto the negotiating forum. It is better to be inside the negotiating process than outside.

A small voice of conscience can, at times, restrain the mighty. If nothing else, SEATINI can at least blow the whistle if things go wrong. Above all, it can help the COMESA Secretariat to look for potholes on the roadmap to integration through negotiations with the EU. As any driver on African roads would know, driving along a potholed road is never a straight trajectory. It is in this spirit that this Bulletin makes these observations: ... Europe has taken advantage of the evolving global trade "regime change" to alter the terms of engagement between itself and the ACP countries. There is not a single country in Africa that would want to negotiate an EPA under Cotonou. They are forced to do so on the one hand by the evolving and seemingly unstoppable stampede to liberalise trade regimes, and on the other by the European Union that is seeking to end preferences to their former colonies to meet the changing needs of Europe....

COMESA and the 16 countries should find ways in which they can skirt around the WTO regime and the limitation placed by the Doha waiver which ends non-reciprocity on 31 December 2007. They need to carry out proper studies on a number of issues that are crying out for clarification and analysis. The fact of the matter is that nobody among the ACP countries really knows what the future holds for them in relation to Europe. They are swimming like dead fish with the powerful current set in motion by the EU and the so-called gravitational pull of globalisation. To question globalisation is like questioning the laws of gravity. And so everybody drifts in the current. Like dead fish.... COMESA should refuse to drift in the current. Globalisation is not like gravity. Globalisation is the policy of the transnational mega corporations to control the global movement of goods, services and capital in order to maximise their profits and fight against the persistent downward pressure on their profits. It is backed by the most powerful states on earth (EU including), and the multilateralised trading system. The EPAs may be the least undesirable option among those visibly placed on the table by the EU, but EPAs and the GSP (now under review) are not the only options in town. There are other options that a creative mind can reveal. It requires a bit of imagination laced with a little bit of will power. As long as it has life the trout in the rivers of Zimbabwe dare to swim against the current. Neither COMESA nor the 16 ESA countries are dead fish. Nor indeed are the ACP countries".

9: Surrendering Services to ‘Free Trade’ Rules

What’s a service?

A service is often described as something you buy and sell, but can’t drop on your foot: health care, education, tourism packages, banking, shop sales, electricity, telephone calls, private security, funerals, legal advice, accounting, cultural performances, movies, music, TV and radio, shipping, air travel, waste disposal, water supply, and many other activities of daily life.

How do you trade in these services?

Just as *trade in goods* means buying and selling things in a market for a price, *trade in services* sees education, health care or water supply as commodities that are bought and sold in a competitive market. *International trade in services* means foreign firms selling services to people from other countries via the internet (eg. education), setting up a local branch (eg. banks), sending consultants (eg. engineers) or having customers come to them (eg. tourist resorts). ‘Free’ *trade in services* means there are no barriers, so foreign firms that supply services are guaranteed at least as good treatment as local firms (eg rights to own land or hold hotel licenses) and don’t find part of the local services ‘markets’ closed to them (eg telecom monopolies).

Why have a trade agreement that covers services?

So governments have to take a market approach to providing services in their country and guarantee that foreign firms can provide such services. This makes it hard, sometimes impossible, to promote local businesses that supply those services and support the local economy, while making sure that people have long term access to key services. If an Island signed a services agreement and then breached its terms, the government would have to bring its policy or law into line. If it didn’t, it could face trade sanctions against its exports into the country that made the complaint.

Would this cover all services?

Governments can initially choose which services to commit and the extent of those commitments – they might not commit education or do so but not let foreign firms receive public subsidies. But these agreements are very technical. It is hard to predict their future effects and almost impossible to alter them if a mistake is made or governments want to re-regulate a particular service. Most agreements expect governments to extend their commitments, and remove their limitations, over time.

What about public services?

It is often claimed that public services are protected. The agreements usually exclude ‘services provided in the exercise of governmental authority’. But that only applies where a service is non-commercial (eg. there are no school fees or water charges) *and* there is no competing provider of similar services (eg. no private fee paying school or hospital). After years of ‘structural adjustment’ very few services or utilities meet *both* those requirements.

What benefits are meant to flow from ‘free trade in services’ for the Islands?

The standard argument is that new investment, technology and expertise will be attracted to the Islands, which is necessary to modernise their services. Foreign competition will make businesses more efficient and able to compete internationally, and will give local people get better services at a lower price. Employment and businesses are also expected to benefit if skilled and semi-skilled people and professionals can move freely between the Islands.

What policy changes are needed for that to happen?

Services ‘markets’ must be created and ‘barriers’ removed through privatisation, deregulation, individual land titles, liberalising foreign investment, introducing user charges for services, contracting public services to private firms, creating ‘flexible’ labour markets – basically the structural adjustment model pushed by aid donors, IMF, World Bank and ADB.

What risks does ‘free trade in services’ pose for the Islands?

This model gives the commercial aspect of services priority over social, cultural, economic, employment, development or conservation goals and assumes that those goals can be delivered through a competitive market. But private firms, especially foreign ones, are in business to make a profit. They are not responsible for the needs of an Island or its people. Some will behave better than others.

The biggest risks often attach to privatisations, where foreign firms look for short term profits by selling assets, laying off staff, cutting unprofitable services, hiking up prices and not reinvesting the profits. Islands can become dependent on foreign firms who threaten to leave if the government doesn't do what they want. Often they do quit when they aren't making enough profit, even if that leaves the Island without essential services and governments have to step back in and restore the service. In the private sector, like shops and hotels, locals can find it impossible to compete with bigger foreign firms. Because services cover so many areas, the Islands' physical, financial, transport and social infrastructure can fall back under neo-colonial control.

How does this tie into PICTA and PACER?

PICTA applies to trade in goods, but can be extended to services. Consultant reports commissioned by the Forum have identified 7 sectors for inclusion: education, health, tourism, telecommunications, financial, shipping and air transport. They recommend that each Island should commit four of these to free trade rules by mid-2005 and the rest by 2009. Then they should consider including others – maybe environment, construction, energy, culture and broadcasting. Trade Ministers discussed this proposal in April 2004 without reaching a decision. Some seem keen to move; others predict it will take years.

If PICTA covered services would these guarantees only apply to Island firms?

The consultants suggest that rights to provide air and sea transport, health and education should be limited to firms from other Pacific Islands (defined as 51% locally owned). They say this could help promote stronger regional services. That may be desirable; but a 'free trade' agreement isn't the only way to achieve that goal. It also means Australia, NZ and EU firms (often owned by investors from third countries) could create a company in one Island and use PICTA to establish a dominant position in the rest. With finance and telecom, the consultants recommend that guaranteed access and treatment for foreign firms should be extended to the world.

Why is there pressure to bring services under PICTA?

Primarily as a 'stepping-stone' for negotiations under PACER and Cotonou. Australia and NZ are very aggressive about services and will be interested in Pacific tourism, education, health, retail, the professions, ports and maritime transport, telecommunications, electricity, construction, environmental services, fishing and forestry-related services and possibly gambling. Initially, they are likely to want the Islands to wind back

- limits on foreign investment (eg. land or media);
- limits on foreign firms providing certain services (eg. telecom, postal services or ports);
- preference to local providers (eg. schools and hospitals); and
- limiting licenses to nationals (eg. wholesale importers, lawyers or taxi owners).

This would give profitable new opportunities to Australian and NZ firms such as banks (ANZ), tourist operators (House of Travel), telecom companies (Telstra), shipping and port companies (Patricks), postal privatisers (Transend), construction firms (Fletchers), supermarket chains (Foodstuffs), health insurers (Medibank Private), cleaning firms (Spotless) and others.

How does this link to the EU's demands under Cotonou?

In 2003, as part of the WTO negotiations, the EU asked Fiji and PNG to remove all restrictions on foreign nationals owning land; guarantee entry for managers and specialists who work for transnational companies, even if locals are available to do the work; and sign away various rights to control shipping, port and distribution services, construction, telecom, restaurants. Another EU priority is to get guaranteed access for its water companies throughout the world.

Does this really matter, given that most islands already depend on foreign firms?

Trade in services agreements are designed to stop governments from giving priority to the needs of their people and their country if that disadvantages foreign firms and locks them into that model. Governments and parliaments must retain the *right* to set the terms on which foreign firms invest and operate, even if they don't currently use that right. This is especially important if something goes wrong – the 'market' fails, services become too expensive for ordinary people to afford, or the market approach threatens social, economic or cultural priorities. Governments must also have some security for essential services because foreign providers can close down and leave, as Fiji experienced when foreign airlines stopped flying there after the 1999 coup.

Case Study 9: Education as a Tradeable Commodity

Education is the way we develop our minds and our potential.

It is a way to pass on knowledge, culture and history through the generations.

Education helps us to understand, reason and engage in informed debate and to participate as families, communities and citizens in making the decisions that shape the present and our futures.

Education also trains and equips us to provide for ourselves through paid work, raising families or producing what we need.

Sometimes education is liberating; sometimes it can be used to impose alien views and irrelevant information, stifle creativity and suffocate our potential to ask the critical questions.

International trade in services treats education *solely* as a commodity to be bought and sold by service suppliers in an internationally competitive market. Education's social, cultural, developmental dimensions have no intrinsic value. The transaction is defined in terms of supplier and customer 'trading' education for money

- across the border* (a student in Vanuatu taking an accountancy course via Internet from a NZ polytechnic);
- by the consumer traveling to the supplier* (PNG students paying international fees to attend school in Sydney);
- through a local branch established by the foreign supplier* (University of Central Queensland in Fiji); or
- by the temporary presence of skilled personnel to perform a service* (a consultant contracted by ADB to rewrite Samoa's education policy).

According to 'free trade' rules, governments must not close off part of their 'education market' to foreign suppliers, for example by limiting the number of high schools or requiring that all schools have local people on their governing board. Nor can governments treat local education providers better than they treat foreign ones, including rights to subsidies. The way they license their teachers or design and recognise professional qualifications must not pose a 'disguised barrier' to foreign education suppliers, either.

Governments initially have a choice about whether they commit their education system to these 'free trade' rules. But once they do, they sign away most of their rights to promote, protect and prefer local knowledge, culture, values and providers if those actions would interfere with the interests of foreign education suppliers in a competitive education market. For Australia and NZ 'export education' has become a massive earner: their schools, polytechnics and universities, as well as private companies and consultants, made A\$141 billion and NZ\$1.7 billion in 2003. The bulk comes from overseas students who travel to those countries. Many schools and tertiary institutions depend on international students fees because of cuts in government funding. In the past, educating overseas students was a way of promoting development in the Pacific; now it is just about making money.

A second 'export' activity involves setting up offshore branches and campuses, like University of Central Queensland in Suva, or franchising the delivery of qualifications, as with the New Zealand Pacific Training College (NZPTC) which has 12 campuses across Fiji. NZPTC's website claims the courses from Box Hill TAFE and Otago Polytechnic are high quality and prestigious. But these institutions are hardly high-flyers in their own countries. It also says it is making education accessible to ordinary Fijians who can't get to USP. But its fees range from \$1550 to \$2400 for one semester in very basic facilities. Is this really about providing education for poor people in Fiji? Or is the company providing a minimalist service to make money in a country that has limited resources to fund public institutions? Could it even be an immigration scam for Fijian and foreign students to gain a qualification that gains them extra points for entry to Australia and NZ, at a price – supported in some cases by the Fiji National Provident Fund or the Sugar Cane Growers Fund?

A further growth area is foreign education consultants who are recruited to redesign curriculum, student support programmes and qualifications systems under the terms of references that are defined by the ADB, AUSAID or NZAID, and accreditation agencies who provide audit services to 'clients' in the Islands. The reverse movement of Pacific teachers, academics and professionals to jobs in Australia and NZ is promoted as one of the greatest benefits for the Islands from 'trade in services'. The long-term economic costs of training nurses and teachers for another country and losing their scarce skills are rarely addressed.

There is a place for foreign education providers, if they genuinely serve the educational needs of the Islands. But there is no need to sign trade agreements to secure their presence and there are serious risks from doing so. If foreign 'exporters' expand into all the Islands, set up schools and campuses or provide courses by the Internet, will the local schools survive? Will foreign schools teach their own country's curriculum and what will that mean for the language, history, identity and culture of the Islands? If foreign schools demand the same subsidies as local schools or the USP, will the government's education budget be spread more thinly or will public subsidies be cut back? Can the public schools and USP compete if foreigners poach their teachers with higher pay? Will the divide between the education rich and education poor become even worse? Who will fill the gap when the foreign education company decides the business is no longer profitable and closes down? And what happens if a government decides that it wants to impose some controls on foreign education providers but finds that it, or a previous government, has signed a 'free trade in services' agreement that lays them open to trade sanctions if they try?

10: A Bill of Rights for Foreign Investors

What has foreign investment got to do with *trade* agreements?

Transnational corporations (TNCs) are the main beneficiaries of agreements like PICTA and PACER. In theory, the benefits of PICTA flow to firms from the Islands. In practice, those firms are often owned outside the region. For example, Fosters (Australia) owns many of the Islands breweries and British American Tobacco (BAT) owns all the tobacco production. If PICTA is extended to services, the real beneficiaries will be banks, construction and telecom companies from Australia and NZ, many of which are owned from the US, UK, Malaysia, China or Japan.

Are 'trade' and 'investment' agreements the same thing?

No, but they go hand-in-hand. Investment Protection and Promotion Agreements (IPPAs) provide additional guarantees for foreign investors and investments in land, privatised state enterprises, contracts to run 'public' services, mining rights, fisheries licenses and quotas, patents and more. They are sometimes also known as Bilateral Investment Treaties (BITs).

What kind of guarantees do these investment agreements provide?

Basically, they are a bill of rights for TNCs. In their pure form, they guarantee them

- unrestricted rights to set up in a country, with no or very limited vetting;
- treatment as least as good as, if not better than, local firms receive, including subsidies and government procurement;
- the right to take all profits out of the country with no exchange controls or requirement to reinvest;
- protection against their investment being nationalized (taken back) by the government;
- compensation for policies, laws, or administrative actions that reduce the profitability or value of their investment; and
- foreign investors can enforce these rights directly against governments in an international tribunal.

Could Island governments limit these guarantees?

In theory yes, but in practice it is very difficult, especially in the longer term. Because investment agreements are negotiated between two governments, or sometimes a group of countries, there is some flexibility to vary the terms. Governments are also usually allowed to hold back certain measures or kinds of investment from coverage. But, as with services, this depends on their negotiating power, how aware they are of the present-day risks and their ability to see into the future. They are also expected to roll back any initial restrictions over time.

What must governments do to comply and what happens if they breach the rules?

Governments have to bring their laws into line – some believe that's what Fiji's Foreign Investment Bill 2004 is designed to do. Investment agreements are usually enforced in a private international court (known as ICSID) that operates in secret, is very expensive and is often seen taking the side of the investor. Most Investment Agreements require governments to make sure any such awards are enforceable in their domestic courts. Just the threat of a case would be enough to stop many governments from acting in ways that the transnationals object to, because damages awards can almost bankrupt a country.

Are investment agreements really so bad?

Recent attempts to enforce investment agreements have provoked huge controversy. The worst examples involve transnational water companies that want massive damages from the governments of Bolivia and Argentina who contracted them to run their privatised water supply. They terminated the contracts because local people rioted when they couldn't afford the water and the companies had failed to reinvest in the infrastructure. Bechtel, a US company that reincorporated a subsidiary in Holland to make use of an investment agreement between Holland and Bolivia, is seeking US\$25 million damages from Bolivia, South America's poorest country. There has been such an international outcry that is apparently trying to negotiate a face-saving exit from the case. Even though Argentina won its case, the legal costs were enormous and other cases are pending. Other investment disputes under the North American Free Trade Agreement (NAFTA) between the US, Canada and Mexico have involved toxic waste dumps, petrol additives, postal services and chains of funeral homes.

Why would any Island government sign such an agreement?

These agreements are promoted by the World Bank, ADB and others. They insist that more foreign investors will be attracted by such guarantees. Many studies say that doesn't happen because isolation, skills, size, proximity of markets and quality of infrastructure are much more influential.

Have any Pacific Islands signed investment agreements?

So far only PNG has signed IPPAs with the UK, Germany and Australia, and the Marshall Islands has one with China.

Where does investment fit into PICTA and PACER?

Several consultancy reports have been prepared on the desirability of an investment agreement, more in preparation for the EU negotiations than for PICTA/PACER. A further study on the principles and framework for an IPPA is being prepared and should be with Island governments by the end of 2004. It's likely that a model agreement will be promoted as a 'stepping stone' for negotiations under both PACER and Cotonou. The EU is especially determined to secure investment agreements through Cotonou. Its attempts to do so in the WTO have been blocked, partly by the ACP countries. If the Island governments endorse a model IPPA, they will have given away that high ground and be very vulnerable to the EU's demands.

What did the previous consultancy report say?

That the Islands can't participate effectively in international trade without more efficient production and less focus on producing for local use. An agreement that promotes and protects foreign investment could attract capital, technology, skills and linkages to help achieve this. That would, in turn, increase economic activity, income and employment. It acknowledges that deregulation and liberalisation hasn't attracted more foreign investment into the Islands. But it blames this on other barriers: political uncertainty, attitudes, macroeconomic policies, administrative barriers and problems with title over land and inshore waters. It glosses over the risks this might create in less than two pages and ignores the controversial question of 'expropriation'.

Does the consultancy report suggest any protections?

It talks of an IPPA-plus approach that would include some support funding, an insurance scheme for foreign investors and an investment preference fund for Small Island States and small vulnerable economies. These are innovative ideas with little prospect of being accepted.

How have the Island governments responded?

They seem to be very cautious. Foreign investment involves very sensitive issues including communal land ownership, the need for a sustainable level of local business and protection of key resources and sectors from foreign control. There is also a sense that few benefits are likely to come from the promotion aspect of an IPPA, while the costs of protection for TNCs would be too high.

Could the Islands pull out of an investment agreement once it was signed?

It is usually very hard to exit such agreements. Typically governments can't pull out for 10 to 15 years, and if they withdraw then they must honour their promises to existing investors for a further 10 to 15 years. For example, if an Island government wanted to introduce new regulations for sound health, social or environmental reasons that would reduce the profitability of the Australian subsidiaries of BAT and Rimbunan Hijau they could be ordered to pay full compensation for any loss of profits or share value. That is supposed to give foreign investors a sense of security – irrespective of the cost for democracy and the country's wellbeing.

What might this mean under PACER?

If similar rules were applied to Australia and NZ, Island governments would have to be very cautious about measures to limit environmental damage from mining, conserve fisheries stocks, cancel legal but corrupt licenses, or reassert control over their nation's education system, in case they breached the rules and faced damages. It is not hard to imagine Australian and NZ mining and forestry companies, tourism operators, private education providers, retail chains, construction firms or fishing factories lodging claims for massive compensation. Just the threat of an expensive legal challenge might be enough to overturn an enlightened policy.

Case Study 10: Protecting Rainforests or Logging Companies?

Concerns about transnational corporations in the Pacific are nothing new. In May 2004 PANG and ECREA awarded the inaugural draunisalato award for the worst company operating in Fiji to British American Tobacco. Among some of the most controversial investments by Australian companies in the Pacific involve in mining and logging. The following story by Mark Forbes and Melissa Fyfe in *The Age Online* on 11 June 2004 helps to illustrate the risks that are posed by signing an Investment Promotion and Protection Agreement (IPPA) with Australia.

In what is widely seen as a corrupt practice, the Somare government has conferred rights, through law, on subsidiaries of Malaysian company Rimbunan Hijau to log Papua New Guinea's rainforest for use in Australian furniture. Even the World Bank is refusing to release \$50 million in desperately needed funds to PNG unless the Somare government moves to ensure that the timber industry is sustainable and accountable. Calls for a commission of inquiry seem unlikely to be heeded, with the government pushing for 10 new "impact" logging projects to be operational by the end of the year to boost its flagging export income.

Queensland-based TLB Timbers, a subsidiary Rimbunan Hijau, takes about half of the 17,000 cubic metres of sawn timber sent to Australia from PNG each year. Its Manager insists it is operating according to the law: "It is the PNG Government that decides where logging operations go and Rimbunan Hijau carries out the logging in accordance with PNG laws." PNG's most senior official agrees that the company is logging illegally, but it has a document authorised by a Minister saying it has a legal permit. Given the company's resources, it could use the courts to frustrate attempts to close its operations down, which was "not in [PNG's] interests". Yet, even if these contracts were not enforceable in domestic law, their cancellation or attempts to re-regulate the logging industry and protect the rights and safety of indigenous landowners could see PNG facing a massive award of compensation under the investment agreement it signed with Australia in 1991. Both the Australian subsidiary and the Brisbane importer could claim these were 'measures ... having an effect equivalent to expropriation' of the profits and value of their firms. The mere threat of such a case might be enough.

PORT MORESBY *"They are the Pacific's last great tracts of unspoilt rainforest, 14 million lush hectares across Papua New Guinea, ancient trees encoiled by thick vines stretching from damp undergrowth high into a verdant canopy.*

Inhabited by isolated tribes, these forests, and the riches within them, have for years been targeted by rapacious Malaysian loggers, who have already stripped the neighbouring Solomon Islands. Stands of trees from PNG's hillsides are shipped south and used in Australian homes, decking, even barbecue trolleys. The finer wood from silver ash, pencil cedar and kwila is sold on to major furniture manufacturers by a large Brisbane timber firm.

"All logging operations in the country are legal," Forest Minister Patrick Pruaitch has proclaimed in advertisements placed in national newspapers. . . .

Pressure has forced the Government to review the operations of major logging projects. Drafts of the review have been obtained by The Age, and the contents are explosive. The Government's own review team has found that PNG's massive logging industry is not only environmentally unsustainable but heading for economic disaster. Almost every major logging project is run illegally and the industry is characterised by "a general contempt" for environmental and conservation values. According to the review, the Somare Government shows no support for sustainable timber production and appears concerned only with increasing revenues by establishing new logging projects and ensuring none is shut down... Permits to ship teak logs overseas were granted by the Minister for Export Permits last year, despite the logs being a prohibited export.

Special criticism is reserved for the Malaysian giant that dominates the industry, Rimbunan Hijau. The multinational company has a net worth of nearly \$2 billion and sits at the apex of political influence in PNG, branching out into restaurants, supermarkets, even one of the nation's two daily newspapers - The National. The performance of Rimbunan Hijau's forest operations was "seriously deficient", the team found.

And, despite laws ensuring traditional landowners share in logging's benefits, the review found that promised infrastructure for isolated areas, such as roads and bridges, were not built or so poorly made they soon crumbled. "Logging was found to have little long term beneficial impact on landowners, although they bear the environmental costs," it said. In their traditional garb, the clans of Wawoi Guavi look untouched by modern civilisation. These clans depend on their rainforest. They hunt and fish there, make gardens and find medicines. The mountains are also littered with sacred sites; burial grounds, ceremonial creeks. They worry that disturbance may upset the spirits of their ancestors. Site by site, they are struggling to protect their cultural heritage. The team found most landowners wanted logging to continue - they had no other avenue for development - but they were not receiving contracted cash and benefits.

The Government's review team is ringing alarm bells after visiting earlier this year, suggesting Rimbunan Hijau has transformed a local police taskforce into a private army to suppress opponents. The police must be immediately replaced by "trustworthy" officers "so that the Government of PNG regains control of law and order", its report states. "It is further recommended that this be considered as a matter of national security and expedited as soon as practicable in order to ensure the safety of genuine landowners who are at risk."

11: Stepping Stones to Chaos

Why are trade agreements described as 'stepping stones' and where are they leading?

'Stepping stones' describe a process where each new 'free trade' agreement requires a deeper commitment to globalisation and locks the door on going back. PICTA is seen as the starting point for the Pacific Islands, leading on to PACER, Cotonou and beyond. The World Bank explains this in a report from 2002 called *Embarking on a Global Voyage: Trade Liberalization and Complementary Reforms in the Pacific*:

In sum, PACER and the Cotonou Agreement have set in motion a process of negotiation of [free trade agreements] between the [Pacific Island Countries] and the EU and Australia and New Zealand, and for providing the United States with similar preferential treatment. The widening of preferential trading arrangements beyond PICTA is inevitable. Only the timing, extent and benefits are uncertain.

What are the steps in this 'voyage'?

Step 1: Melanesian Spearhead Group Trade Agreement [MSG] This was formed in 1993 by PNG, Solomon Islands and Vanuatu. Fiji joined in 1998. It supposedly applies free trade rules to a small number of key products in which each country has a comparative advantage. The Melanesian governments, especially PNG, argued that this agreement provides a small-scale, gradual and island-only approach to free trade that should be the basis for any larger agreement among the Islands and with Australia and NZ. But free traders criticise it as limited and weak, especially since Vanuatu and the Solomon Islands both effectively suspended their commitments on the grounds that they were facing a revenue crisis.

Step 2: PICTA The summary on the Forum Secretariat's website explains:

PICTA should also be viewed by the FICs as a "stepping stone" towards their more complete integration into the international economy, an initial preparatory step towards more extensive liberalisation in the future that will hope to achieve greater long run benefits.

It is also meant to act as a "training ground" for further integration. Free Traders note that commitments to and implementation of PICTA have been slow and uneven – PNG put 87 items on its 'negative' list; Fiji has listed nothing - and they say this proves that deeper and more binding commitments are needed now.

Step 3: PACER & Cotonou Supporters of PACER sometimes try to deflect criticism by saying it is just a trade facilitation mechanism, when it is obviously a free trade agreement in the making. In the eyes of Australia and NZ at least, it is the next level to which the Islands will graduate after PICTA. PICTA also creates the regional trading entity (minus Australia and NZ) which the EU needs for its strategy of Regional Economic Partnership Agreements (REPA) under Cotonou.

Step 4: The WTO In free traders eyes PACER and Cotonou are still imperfect. Even if an agreement under PACER brings technology transfer and cheaper inputs, and locks in free market policies, it can also create inefficiencies, reduce government revenue by diverting trade from tariff-paying countries, and promote a 'hub-and-spoke' effect by concentrating Pacific economic activity in Australia and NZ. Those countries will also protect their interests at the expense of the Islands when they negotiate a regional agreement. A Pacific REPA is seen as having fewer 'free trade' benefits and similar disadvantages. So the World Bank report goes further and suggests that the Islands could avoid these problems, and the high transaction costs of multiple negotiations, by simply extending 'free trade' concessions to all countries by joining the WTO. This would have the added advantage - that by *"locking in" such reforms internationally, WTO accession provides governments with a defence mechanism against future policy backsliding or "de-liberalization" in response to domestic protectionist pressures.*

Step 5: Unilateral liberalisation As if all that is not enough, the World Bank report warns that the main benefits the Islands could expect from joining the WTO - financial and technical assistance and access to the dispute settlement body to challenge 'unfair trade practices' by major powers' – may be outweighed by the costs of implementing complex agreements that are largely irrelevant to the Islands. It would be much better for the Islands to lower their trade barriers unilaterally against all countries. After all, economic theory, backed by computer modeling, says 'the greater the free trade commitment the Islands make, the greater the aggregate welfare gains they will receive in return'.

What does this 'global voyage' really require governments to do?

These agreements are intended to provide transnational companies and foreign investors with unfettered access to the Islands' markets for goods and food, their fisheries, a wide range of infrastructure, commercial and social services, government procurement and property.

To achieve this governments have to remove border taxes and restrictions, streamline customs, privatise and create services markets, ease foreign investment and business immigration and adopt business-friendly regulations. That will force big changes on Island economies and a period of 'structural adjustment' will occur. To make sure the Islands can take advantage of the new opportunities that globalisation has to offer with as little pain as possible, governments are required to make further 'collateral' policy changes by addressing major barriers to private sector profitability: 'wage rigidities' (minimum wage, unionisation and wage awards rates), the large state sector, unskilled labour markets, uncompetitive public infrastructure, 'excessive and inappropriate' regulations, unproductive land use and lack of secure land titles for raising credit.

That doesn't leave much for governments to decide!

Limiting governments is another part of the model. Global markets only allow a limited role for the state. Governments are meant to liberate market forces and only continue doing what the market can't. Their most important role is to maintain 'sound' economic policies and a strong legal system to protect property rights and law and order. The state is also expected to fund – but not necessarily provide – basic education and healthcare, a sound physical infrastructure such as roads and electricity, and protect the environment.

What if a sovereign government doesn't support this approach?

'Sensible' governments are meant to recognise the need for such reforms; 'super-sensible' governments will go further than the trade agreements require. That is called 'good governance'. Bad governance is not doing what the IMF, World Bank, ADB, WTO and major powers say is best for the Islands by adopting their policy agenda for 'reform'.

But these policies have been a disaster in most Islands, and other countries around the world!

The World Bank report concedes that exporters and the import-competing private sector in the Islands might not survive the removal of protections and subsidies. They even accept that new job-creating industries might not automatically develop to replace them and absorb the newly unemployed, even if real wages are forced down. 'Rightsizing' the public sector might fail too:

In the best case, public sector reform would tend to improve the flexibility of the labor market, reduce the cost of public utilities, and by creating the right conditions for the private sector to develop, provide employment opportunities for the displaced labor. The best case may, however, not materialize.

To date, they concede: 'Public sector reforms have not met with the expected success'. They say that is because there was too much emphasis on cuts and not enough skilled people were retained for the public service to work properly. They say they have learnt that lesson and will get it right next time!

What if the people don't want these policies?

The standard response is to label unions and local businesses who criticise this agenda as vested interests out to protect their patch, while the silent majority who will benefit from 'free markets' have no one to speak for them. But the World Bank is also concerned that existing opposition to public sector restructuring might spill over into opposition to 'free trade', even among those most they say will benefit: 'it is quite possible that workers in protected industries would attach a higher weight to the downside risk of not finding a job than the upside potential of alternative employment'. They suggest that people don't know what's good for them because the benefits haven't been properly explained. To minimize resistance they say governments should buy-off the middle class with redundancy payments or retraining, and provide below-subsistence public work schemes to support families through the short-term pain as they wait for a market-driven recovery. Australia and NZ should help pay for that.

Who takes responsibility when these policies don't work?

Those who promote this agenda don't see that as a possibility, because they believe there is no alternative. If the policies fail it is because governments haven't been strong enough or there is a glitch in the way they've approached it. As the World Bank report frankly admits, the purpose of binding and enforceable nature of trade agreements is to make sure that governments can't back out:

[The] credibility of reforms may be increased if they are locked-in with a regional or multilateral agreement. For this mechanism to be effective, a high-income partner should be ready to reward good policies, but also, importantly, to impose sanctions in the event of backsliding. While PICTA may not be able to serve as the lock-in mechanism, this role could be played by the EU, Australia and New Zealand in [Regional Trade Agreements] with the PICs.

Case Study 11: The ADB's Pacific Strategy 2005-2009

The Asian Development Bank (ADB) recently produced a discussion document on its Pacific Strategy for 2005-2009, called 'Responding to the Priorities of the Poor'. Its three goals reflect the current fashion in 'development-speak': pro-poor sustainable economic growth; social development; and good governance. The strategy to achieve these goals is supposedly based on a survey of the poor, although the actual reports are not available on the ADB website so that claim is impossible to evaluate. In reality the new strategy presents the same old failed policies masquerading as the people's choice. A boxed insert that sets out the ADB's two strategic objectives in the Pacific makes this clear:

Objective 1. *To enable the poor to gain access to efficient markets for goods and services and to secure decent jobs.* This is to be achieved by improving the environment for private sector development (including small entrepreneurs and rural producers) using the standard menu of structural adjustment policies and free trade rules; and

Objective 2. *Improve social services outcomes for the poor* (defined as basic education and health care, water supply, waste management and sanitation). This is to be achieved through private (foreign) provision of public services, the creation of services markets, efficient revenue collection (user charges), 'consumer responsiveness', and standards and benchmarks for service delivery. These are all the necessary foundations for foreign transnationals to control and profit from Island's social service infrastructure under the guise and rules of international trade in services.

These strategic objectives are legitimised by reference to the UN's Millennium Development Goals (MDGs). Promises to halve poverty and deliver universal education, promote gender equality, access to clean water and combat HIV/AIDS by 2015 sound seductively benign – except that they are all supposed to be achieved through market mechanisms.

Failure of the ADB's previous two 5 year plans for the Pacific is acknowledged, but is blamed on governments and a lack of public ownership of the policies, not on its market-driven model of 'development'.

The ADB's first solution to its past failure draws on the current fashion in development thinking: 'building effective institutions'. This requires governments to provide secure property rights, an effective (western) legal system and critical infrastructure, and to withdraw from activities the private sector can deliver. The Islands are urged to consider a regional approach in line with 'recent Australian advocacy of "pooled regional governance".'

The second solution is to create a 'sense of ownership and participation in the reform process and in government decisions in general' and to 'strengthen the development debate in the Pacific'. The ADB is not suggesting participation in decisions about the development model itself. It has pre-empted that debate by claiming this latest strategy is designed by the poor themselves. Instead, it wants to mobilise public support for the market model by building 'greater public awareness and realistic expectations'. Specifically it aims to 'increase public demand for more effective markets and services', develop 'a shared understanding of the roles of public and private sectors', and make capacity building programmes to implement the strategy more effective.

The ADB's agenda is old-style colonialism updated to suit the new globalisation paradigm. For example, it implies that traditional cultural norms, including collective land ownership, are a major obstacle to achieving their own goals. There is no sense that the Islands people might legitimately choose to defend those traditional values or that moves to displace them might provoke serious instability if governments are locked into maintaining the market model. Nor is there any recognition that the ADB's market model might continue to fail, with devastating consequences - and that large parts of the Islands (geographically) and groups of people (young, unemployed, women, rural, elderly) would have to depend even more heavily on the traditional cultural supports and communally owned land that these policies seek to destroy.

This is a contradictory and deeply anti-democratic agenda that hides behind the facade of 'people's choice'. The ADB expects governments to provide a stable and supportive environment for the private sector in the midst of massive restructuring and upheaval of existing economic, social and cultural life. If governments have problems passing the legislation required to achieve the ADB's strategy, this may not just be a matter of incompetence or corruption. It might also be bad legislation. Or the domestic consequences may be untenable. To force them into maintaining that approach through binding 'trade' agreements is hardly going to foster 'ownership' by their citizens. In practice, governments will have to rely on ignorance, acquiescence, traditional hierarchical structures of obedience or repression. What are they meant to do if their people exercise their democratic right to say 'no' and demand an approach to development that genuinely reflects their values and aspirations for the future?

12: The Forum Secretariat & The Pacific Plan

What role does the Forum Secretariat play in the region's trade negotiations?

Part of the Forum Secretariat's mandate when it was established in 1991 was to investigate the development of 'free trade' among the Forum Island Countries. Since 1997 it has been pivotal in coordinating the emerging raft of negotiations under PICTA, PACER and Cotonou, and it has just set up an (EU funded) WTO office in Geneva. This coordination makes sense given that most Islands have broadly common interests and limited capacity. But such a central role also increases the democratic deficit. The Secretariat is only accountable to Forum governments collectively, so people from one Forum country have no right to access reports or documents produced by or for the Secretariat as part of these negotiations unless all Forum governments approve their release.

What part did the Secretariat play in the PICTA/PACER negotiations?

The Islands depended heavily on the Secretariat, whose officers bore the brunt of Australia and NZ's bullying. Their consultants were also targeted. The Secretariat faced a quandary. On one hand, its mandate required it to represent all Forum members and adopt a neutral position in what became a highly adversarial process. Technically it did that. But there is no doubt that the Secretariat's priority, or at least that of its trade division, was to service the needs and preferences of the Islands. Australia and NZ worked hard to shift control of the process from the Secretariat to the political level of Forum Ministers and Leaders meetings. They were determined to ensure that any decision about their involvement in a regional trade agreement was dealt with as part of the actual negotiations and not in pre-negotiations over which the Secretariat had more control.

Does the Forum Secretariat have any role in implementing PACER?

The Secretariat is the main way that governments engage with each other under PACER. The agreement sets out the Forum's responsibilities in quite narrow administrative terms, presumably at Australia and NZ's insistence. Its main influence comes through the preparation of an annual report that informs the annual and three-yearly reviews of PACER's implementation and operation and 'all aspects of trade and economic cooperation between the parties'. The Secretariat also provides technical support to implement PACER through the Regional Trade Facilitation Programme (RTFP) (funding for which is currently stalled) and a work programme for financial and technical assistance in areas such as capacity building and structural adjustment, including fiscal reform.

Is the Secretariat playing the same role in negotiations under Cotonou?

The Forum Secretariat is coordinating the Pacific Islands response to Cotonou. A handpicked Trade Experts Advisory Group has been convened to prepare regional strategy documents for the trade ministers. The Secretariat has also commissioned consultancy reports on specific sectors including fisheries, tourism, investment, sugar, trade facilitation, rules of origin, export capacity, agriculture, services and fiscal reform. These feed into the national workshops of 'non-state actors'. The Forum then integrates these responses into the process. Several national workshops were held in 2003, but reports suggest they were superficial. A further round in July 2004 produced more information and a better level of debate, but no real time to analyse the consultants' reports – and no chance to debate the rights and wrongs of the underlying development model in any meaningful way.

How does the recent review of the Forum relate to these trade negotiations?

Australia, with NZ, began reshaping the Forum Secretariat in 1995. It has become clear that they are intent on recolonising 'their pond', through and beyond PACER. The Forum Secretariat will have a central role in how this plays out, so the 2004 Eminent Persons Group review is very important. Staff within the Secretariat had expected it to address their lack of capacity to meet rapidly expanding demands and help to rationalise its structure and operations. Instead, it has vested extensive executive authority in the Secretary General to address the institutional and operational issues – which in turn makes the controversial appointment of the new Secretary General even more significant.

In what way might the appointment of the new Secretary General affect these dynamics?

The appointment of an Australian as Secretary-General and the way that was secured (as distinct from the actual person) remains a sore point with many Forum Island governments - even though they let it happen by running competing candidates. Former Secretary General Noel Levi described this appointment as changing the politics of the Pacific - unwritten conventions of consensus decisions and Island leadership were ousted by a written process for elections that is open to all 16 countries. USP academic Sandra Tarte suggests that ownership of the Forum itself is increasingly at risk:

This sense of ownership has been eroded in recent years as economic, political and security initiatives of the Forum seem to be increasingly driven by Australia and New Zealand (who also control the purse strings).

The appointment also creates problems for the Cotonou negotiations: the EU will not operate through a Secretary General who comes from a country that is not a party to the Pacific REPA.

Were there other significant elements in the Forum review?

One of the most important, and least remarked on, is the proposal for Ministers to have delegated authority to make decisions. This means the Forum Trade Ministers would be able to sign off on treaties. That happens now with the WTO and many other trade agreements. Obviously the Trade Ministers are guided by a Cabinet mandate. But this delegation increases the risk that agreements will be approached only from a trade perspective and that critical questions about their multi-faceted social, cultural, environmental and democratic implications will never get explored.

What did the review suggest about the future of the Forum?

The Eminent Persons Group (EPG) report identified four core areas for the Forum. All are interrelated and all are framed within the global market paradigm:

- *Economic growth* means deepening and broadening the market model of 'sound' economic policies and free trade, with PACER providing the key to regional economic integration.
- *Sustainable development* is built on the contradictory agenda that was endorsed at the World Summit on Sustainable Development in Johannesburg in 2002, which requires sustainability to be WTO-compatible and promotes market mechanisms such as public-private partnerships and tradeable quotas to achieve sustainable development.
- *Good governance* combines 'sound' market driven policies, a reduced size and role of the state, and a legal system that protects private property rights, while also eliminating corruption;
- *Security* becomes a regional responsibility. The prospect that the previous three pillars might provoke more intense internal and inter-regional conflict is never acknowledged.

What is Australia and NZ's agenda for the Forum?

A series of reports in 2003 give a sense of Australia's vision for the Pacific. In May, the libertarian Centre for Independent Studies published an assault by Dr Helen Hughes on Australian aid to the Pacific. She advocated a market-driven regional community. In July, *The Age* newspaper reported Prime Minister Howard had plans for a Europe-style Pacific Community. In August, the Senate Foreign Affairs Committee endorsed public debate on a Pacific Economic and Political Community. Within a week, at the Forum meeting where he secured Greg Urwin's election as Secretary General, Howard circulated a confidential briefing paper that endorsed a range of options for regional consolidation. These included a single (Australian) currency and a regional central bank, alongside regional service delivery and legal and administrative structure to respond to law and order breakdowns. The New Zealand government, as Australia's deputy sheriff in the region, seems to endorse the general idea, perhaps because that advances its own goal of securing even closer economic integration with Australia.

How did the EPG report deal with this proposal?

The report talked vaguely about the "big idea" of Pacific inter-dependence and set in train a process to investigate "the pooling of regional resources in a range of areas of governance" as part of the development of a Pacific Plan. The Forum Leaders meeting approved the report in April 2004 and asked the Secretary General to draft terms of reference for a Pacific Plan Task Force to present to Leaders in Apia in August 2004. Although Pacific politicians have played down the likelihood that this might produce a regional economic union of the kind suggested in Australia, influential forces within that country seem pretty committed to the idea.

Case Study 12: Recolonisation - The New Pacific Way

August 2003: A Pacific Engaged. Report of the Senate Foreign Affairs, Defence and Trade Committee, Canberra

"There was a view in the Committee that we should take the more radical approach and recommend that a Pacific economic and political community be established... In the event, the Committee has taken the approach of putting forward the idea ... for public debate ... because insufficient evidence and analysis has been received by our inquiry to enable us to be categorical about all of the likely issues the creation of such a community raises. ... The discussion concerning the feasibility ... proposes a Pacific community which will eventually have one [Australian] currency, one labour market, common strong budgetary and fiscal discipline, democratic and ethical governance, shared defence and security arrangements, common laws and resolve in fighting crime, and health, welfare, education and environmental goals. ...

Recommendation 2: The Committee recommends that an Eminent Persons Group be established, with access to specialists from Australia, New Zealand, PNG and the Pacific Island Countries to investigate the proposal for a 'Pacific Economic and Political Community'. The Group should meet with all governments in the region to gauge the desire of countries to move in such a direction."

18 August 2003 *The Age*: "The Howard Government has proposed a radical plan for Pacific nations to adopt the Australian dollar, amalgamate key services and set up a regional unit to fight transnational crime and terrorism. The proposals are contained in a confidential briefing to regional leaders circulated at the Pacific Islands Forum in Auckland, obtained by *The Age*. Prime Minister John Howard has confirmed the existence of the briefing paper but refused to discuss its contents. Mr Howard last week played down a Senate report advocating a Pacific Union, akin to the European Union, and the regional adoption of the Australia dollar, saying that such a proposal was on the 'never-never'. However, the Government's paper endorses a range of options for regional consolidation [that] could involve creation of a regional central bank and single currency."

5 April 2004 *ABC Radio*: SEAN DORNEY: "The media has been speculating on the idea that there eventually be a Pacific Union, a bit like the European Union. Could I have your reaction to that?" PRESIDENT OF KIRIBATI, ANOTE TONG: "Frankly, we don't see ourselves being able to absorb that at this time. And I don't think that that should be proposed for next few years."

5 April 2004: *Pacific Cooperation. Voices of the Region. The Eminent Persons Group Review of the Pacific Islands Forum*

"The Pacific Plan lies at the heart of this Review. Its success – which will require a major philosophical commitment by all countries – will depend on Leaders accepting the "big idea" and then making an early start on a sequence of practical steps. While members of our group have clear ideas of their own about how the Plan might advance and precisely what it might consider, it would be inappropriate to present these now. For one thing, the precise content of the plan should be based on comprehensive research and analysis. For another, commissioning this work clearly falls within the mandate of Leaders. We are putting forward an idea and a process, rather than a blueprint. We ask Leaders not only to endorse the concept of the Pacific Plan, but also to be bold and innovative in pursuing it. Greater sharing of resources is the first step. We hope that Leaders will be prepared to go further, to consider regional integration that runs deeper than that established already under regional trade arrangements. We suggest that it would be timely for Leaders to consider options for future economic and political integration – possibly to develop a model that is unique for the Pacific. ...

We recommend that the Forum Leaders: Endorse and lead the development of the Pacific Plan, intended to create stronger and deeper links between the countries of the region. We propose that the Plan should:

- Assess options and provide a strategy for deeper and broader regional cooperation.
- Identify the sectors and issues in which the region can gain the most from sharing resources of governance and aligning policies.
- Provide clear recommendations to Leaders on the sequence and priorities for intensified regional cooperation.
- Be used as a springboard for stimulating debate on how to shape the region's longer-term future.
- Be carried out by a Task Force of people from within the region, managed by the Secretary General.
- Be overseen by an open-ended group of Leaders (perhaps formed around a core group of three, comprising the immediate past, current and incoming chairs)."

6 April 2004: *Pacific Islands Forum Special Leaders' Retreat - The Auckland Declaration Auckland*

"Leaders agreed to ... endorse and lead the development of the Pacific Plan, intended to create stronger and deeper links between the countries of the region. ... Provide clear recommendations to Leaders on the sequence and priorities for intensified regional cooperation.... Be used as a springboard for stimulating debate on how to shape the region's longer-term future.... Be carried out by a Task Force of people from within the region, managed by the Secretary General.... Be started as soon as possible.... The Forum Secretariat to complete an assessment of existing mechanisms and processes for regional cooperation in time for the 2004 Apia Forum, along with draft terms of reference and recommendations from the Secretary General for membership of the Task Force."

13: Reclaiming ‘Good Governance’

How could all this happen without the people of the Pacific knowing?

Pacific people were excluded from debating these developments because of the secretive way that trade negotiations are conducted and the willingness of governments to buy into that anti-democratic process. Regional NGOs, especially PANG, challenged the lack of transparency and ‘civil society’ input when they discovered what was happening in 2001. Their voices were ignored.

How did the Forum respond to those challenges?

Secretary General Noel Levi used the same lame excuses that are always given: governments had been encouraged to consult; the sensitivity of intergovernmental negotiations means extensive details can’t be released to the general public; and background social impact studies had been commissioned.

What about the right of Island parliaments to know what their Cabinet or King are doing?

Noel Levy also claimed in 2001 that:

In most countries, in order to be ratified, the trade agreement must go through Parliament or its equivalent, and will therefore be subject to the normal constitutional process of public debate, and discussion. This is of course right and proper, and is in line with the eight principles of accountability endorsed by Forum Leaders in Kiribati last year. This process will take place over the coming year.

However, it appears that most Pacific Parliaments (including Australia and NZ) *don’t* get to vote on a trade treaty, even once negotiations are complete. Vanuatu seems to be one exception – which may help explain its decisions to defer acceding to the WTO and not to join PICTA and PACER.

What principles of accountability was the Secretary General referring to?

The principles set out in the Biketawa Declaration of October 2000. The irony is that these are *not* applied to international trade negotiations – even though the impact of those agreements on people’s lives will be more far-reaching than almost any decision taken by a national parliament and they are meant to tie the hands of future elected governments for decades to come.

What are the Biketawa principles and how does the trade negotiation process violate them?

(i) Commitment to good governance which is the exercise of authority (leadership) and interactions in a manner that is open, transparent, accountable, participatory, consultative and decisive but fair and equitable.

The story of PICTA/PACER is one of secret negotiations, conducted under conditions of inequality and coercion. They lock governments into economic policies that abandon the wellbeing of their people, cultures and environment to the global market place. There has been very little public discussion or sharing/releasing of information to the public in order to promote transparency, accountability, participation and debate. Far from reining in corrupt governments and the vested interest of powerful elites, the treaty making process places even greater unaccountable power in the hands of the Executive and fundamentally disempowers their citizens.

(ii) Belief ... in the individual’s inalienable right to participate by means of free and democratic political process in framing the society in which he or she lives.

PICTA/PACER/Cotonou/WTO explicitly aim to lock Pacific Island Countries - and Australia and NZ - irreversibly into neoliberal policies and deregulated global markets and are *designed* to deny the people of all those countries, now and in the future, the right to decide their own future.

(iii) Upholding democratic processes and institutions which reflect national and local circumstances...

The profoundly anti-democratic institutions of the WTO, IMF, World Bank and ADB are mandated to pursue a process of global economic policymaking that requires Pacific governments to adopt a standardised policy template. This denies their democratic processes and institutions the policy space to reflect their national and local circumstances, except at the margins.

(iv) Recognising the importance and urgency of equitable economic, social and cultural development to satisfy the basic needs and aspirations of the peoples of the Forum.

PACER is premised on a bankrupt ideology that claims market-driven globalisation can eliminate poverty, despite abundant evidence that such policies have increased inequality and deepened poverty. Governments are prevented from abandoning those policies when they fail to satisfy the basic needs of their people or are contrary to their aspirations. If measures they adopt to promote social and cultural development breach free trade rules, they can be subject to crippling sanctions.

(v) Recognising the importance of respecting and protecting indigenous rights and cultural values, traditions and customs.

PACER is based on an individualised, competitive, self-serving and exploitive model of free market capitalism. That is philosophically, spiritually and culturally irreconcilable with traditional indigenous values, traditions and customs, systems of land ownership and models of development. An attempt to include recognition of indigenous rights in the Objectives Article of PACER failed – even though NZ has insisted in its bilateral agreement with Singapore on a provision that allows it to take measures to implement the Treaty of Waitangi and promote Maori development, and exempts their assessment of what that means from the dispute settlement mechanism.

(vi) Recognising the vulnerability of member countries to threats to their security, broadly defined . . . and (vii) Recognising the importance of averting the causes of conflict . . .

The massive economic and social upheaval which implementation of these agreements will require poses a potent threat to national and regional security and stability – one that seems likely to intensify when people are told there is supposedly no exit.

Surely this secrecy works against the Island governments in dealing with Australia and NZ?

The Forum Island governments created a rod for their own backs by conducting these discussions in secret. If they had opened the idea of a free trade agreement to public debate in 1997 and released the background documents to allow for independent and critical scrutiny, they may have been convinced not to proceed. They would certainly have had a stronger basis for rejecting Australia and NZ's demands. Instead, they opted to create a seemingly limited 'free trade' agreement among themselves and opened a Pandora's box that they may be unable to control.

Is there any sign of movement to deal with this 'democratic deficit'?

There are requirements for consultation with 'non-state actors' under Cotonou, but governments decide who gets consulted about what. The review of the Pacific Islands Forum in 2004 also suggests more formal dialogue, but this carries the same dangers of vetting and cooption. New Zealand funded a (civil society) forum at the Leaders Meeting in 2004 but it had no visible effect. Some governments clearly do not support opening up the process. Fiji and Tonga apparently objected that 'civil society' groups and NGO journalists were given greater access at the special Forum Leaders meeting in Auckland in April 2004 to discuss the Eminent Persons' Group report on the Forum. Fiji's Prime Minister complained that some NGOs were funded by foreign governments or organisations and imposed foreign values on Pacific societies. Tonga's acting Prime Minister reportedly said that groups such as the Human Rights and Democracy Movement 'were involved in highly questionable activities and were making trouble'.

How long will double standards about good governance and trade negotiations continue?

Nothing will change until people make their governments abandon the veil of secrecy and engage in open, informed, participatory debate about these negotiations, and until governments recognise that their people – NGOs, social movements, trade unions, local businesses, the media and ordinary citizens - are powerful allies in saying 'no' and in opening new pathways to address the urgent and serious challenges that are facing us all.

Case Study 13: Putting the Biketawa Declaration into Practice

The Governments of the Forum Islands Countries are respectfully urged to...

1. Use the development of a Pacific Plan proposed by the Forum's Eminent Persons Group and endorsed by the Forum Leaders to generate a broad ranging national and regional debate on the kind of development models the peoples of the Pacific want for their future, starting from first principles.
2. Convene their own inquiry to document the behaviour and demands of Australian and NZ governments in negotiations on PICTA/PACER and WTO accessions and publish that report.
3. Freeze decisions relating to
 - proposals to accede to PICTA or PACER;
 - proposals to accede to the WTO;
 - extending PICTA to services; and
 - endorsing a model investment agreement.
4. Take no action that could trigger negotiations under PACER.
5. Tell the EU to wait for a decision on the Pacific Islands response to the Cotonou Agreement until the issues surrounding PACER are resolved and open a similar public dialogue in relation to those proposed negotiations.
6. Instruct the Forum Secretariat to
 - release all studies prepared in relation to past, present and proposed negotiations for PICTA and PACER and for the Pacific REPA;
 - commission comprehensive empirically-based studies of the economic, social, cultural, environmental and democratic implications of free trade agreements, with particular reference to food, manufacturing, natural resources, services, labour markets, investment, land and cultural knowledge, to be conducted by local groups at national levels; and
 - convene a region-wide public inquiry into the proposal for a Pacific Economic Community.
7. Hold fully open and participatory national hearings to consider the issues surrounding PICTA and PACER including avenues for possible withdrawal and their termination, and act on the outcome.

In the spirit of the Biketawa Declaration, the Governments of Australia and NZ must ...

8. Stop exploiting their dominant economic power and capacity, and promoting their ideological and economic self-interest, by bullying the Pacific Islands into making commitments they don't want.
9. Agree to terminate PACER if requested.
10. Abandon their demands within the ADB, WTO and APEC that aim to lock Pacific Island governments into inequitable and anti-democratic market-driven policies.
11. Engage in genuine dialogue about regional economic cooperation, including between Australia and NZ, based on participatory processes of decision making that are consistent with the Biketawa Declaration and accord with genuine principles of democracy and good governance.
12. Make economic and political commitments that reflect their historical and contemporary obligations to poor, small and vulnerable Pacific Island countries, who are their closest neighbours, including a level of aid funding closer to that expected of OECD countries.

Where to from Here?

PACER is about power.

At one level it represents an ongoing struggle between sovereign states in an unequal and dependent world, as Pacific Islands governments cautiously and privately try to resist moves by former colonial powers, Australia and NZ, to recolonise the Pacific region. It is time for Pacific Island states take back the initiative in deciding their collective future - instead of having future options forecast and determined for them by non-Pacific Island policy makers and governments. The Pacific Islands Forum was originally formed to enable independent states of the Pacific to freely address thorny political issues and obstacles to their development (at the time, colonialism and nuclear testing in the region) without being constrained by the paternalistic and self-interested presence of the colonial powers in the region (France, US and Britain) that were then represented in the South Pacific Commission and South Pacific Conference. The issues today are different, but they call for the same spirit of independence and self-determination to be exercised.

At another, related level, what is at stake is the fundamental right for all people of the Pacific region to determine our own futures and to hold our governments to account for decisions they make in our name. Until now, we have been excluded from decisions that commit our countries to the destructive path of market-driven 'development' and that aim – explicitly and without our consent – to foreclose our right as citizens to reject that direction and take a different path in the future.

Reasserting the right of self-determination involves a process of empowerment. These issues are complex. They often seem overwhelming. Sometimes it is hard to see how we can alter a course that is externally driven by powerful governments, corporations and institutions. But the tide is turning throughout the world - largely because people through many different inter-connected networks are becoming more aware, organised and effective in asserting the right to say 'no'. That confidence is, in turn, challenging and empowering governments to resist demands that they don't believe are good for their countries but have, until recently, felt they there is no choice but to accept.

How might this level of empowerment become a reality in the Pacific? The following are some suggestions that draw on experiences of what has and has not worked in other places:

(i) Defining the problem: The challenge becomes more manageable once we

- understand the common model that underpins global economic policy making by the WTO, IMF, World Bank, ADB and trade agreements such as PICTA, PACER and Cotonou, and the implications of that model for the Pacific;
- grasp the big picture of how the agreements relate to each other at an ideological and practical level, and how their specific contexts and content vary, so we can use this understanding to make sure that the strategies we develop for specific negotiations have the greatest impact on the overall situation;
- become familiar with the standard form of justifications, concepts, formats, legal terms and processes that is used in all 'free trade and investment' negotiations, so we we can make sure our approach is consistent and we can streamline our work;
- see behind the pretence of 'trade' to understand the linkages with foreign policy, militarisation, expansion of corporate dominance and neo-colonialism.

(ii) Strategic planning: Tactics for specific negotiations are most effective if they draw on a broader strategic plan to

- build on existing strengths and groups, with a clear contact point that is responsible to coordinate 'trade-related' issues regionally and to establish effective links with activists in related campaigns at an international, regional and Pacific level;
- clarify the range of strategies for national and regional intervention, including cultivation of links with particular national governments, officials, the media and consultants;
- identify the timeframes for decisions about key elements of the negotiations, including high profile Forum events, scheduled meetings of Ministers and negotiators and consultations on the Pacific Plan; and
- implement a rolling two-year campaign that updated and reviewed every six months, which sets out clear priorities, is realistic about what can do and by when, and allocates tasks and responsibilities with appropriate ways to monitor progress and identify problems.

(iii) **Implementation:** The greatest challenge is to translate grand strategies into action through:

Information: Good quality up-to-date information about relevant developments within and outside the region is a pre-requisite. That may take the form of documents, news reports, speeches, meetings or just reports of conversations. Overseas experience shows that leaks are a very important means of breaking through the secrecy barrier, provided sources can be safely protected. Effective sharing of information across the region needs to become a routine process that is coordinated through a small number of organisations. That should include an interactive website and email list serve, with a regular monthly bulletin that up-dates developments, and back up systems for those who can't access that information electronically.

Analysis: The capacity to analyse such information is critical. Sector-based analyses at the national level need to reflect the understandings of NGOs, trade unions, churches, women's groups, students and small businesses, coordinated where appropriate at a regional level through groups like PANG, PCRC, PCC, SPOCTU and DAWN. These can be integrated to paint a cross-sectoral national and regional picture. That analysis does not need to begin from scratch. Often it will be possible to adapt good quality work that has already been done by people working on similar issues outside the region. But critique is not enough. Analysis must also raise possibilities for alternatives that inspire debate and a belief that there really are progressive development agendas available for the Pacific.

Education: It is easiest to begin by developing a broad-based understanding of these issues among those who have an existing organisational base and membership and a direct interest in the outcomes, such as NGOs, trade unions, churches, women's groups, students and small businesses. Making the analysis relevant and accessible to their members is a huge challenge. Again, resources that have been prepared by similar groups in other places might be adapted. The churches have a special role in explaining the threats these agreements pose to communal land, livelihood, culture and food security and to motivate their congregations to ask questions.

Dissemination: Obvious avenues for sharing information and analysis include newsletters, meetings, workshops and public lectures. But more creative ways of sharing information are essential to overcome the sense that this is all too big, alien and difficult. Music, art, videos, plays, story telling, street theatre, games and church sermons are much more effective than written documents in reaching people in their daily lives. Creative artists who act as 'translators' into different forms and languages are treasures who need to be identified, trained and supported. The media is an equally important way to raise the profile of these issues and making them part of everyday conversation. Pacific journalists, including students, have shown an active interest in learning more, but stories need to be packaged in innovative ways that are easily accessible and 'newsworthy'.

Training: None of this just happens. Making the strategy work depends on a critical mass of activists across every Island who can evaluate information and assess its implications. People have to want to do the hard work of learning the basics and developing the analytical skills. The most effective approach is a programme of intensive exposures and refresher courses for a core of activists who can, in turn, run training programmes for others in their countries and sectors. In some countries, NGOs have developed such a level of independent expertise and credibility that they have been running training programmes for journalists, members of parliament and government officials. Their critique now shapes the debate and significantly influences policy decisions within their countries.

Intervention: The most critical challenge is to develop a coherent strategy to translate all this into effective pressure on, and support for, governments who have so far excluded their people from engaging them on these issues. Not everyone will agree on tactics and goals. But it is important to develop dialogue across sectors and countries and a sense of shared responsibility for the fact that actions taken by some groups in their own self-interest have implications for others. That is especially true for those of us from Australia and NZ. But it also applies to individuals and groups who are offered selective consultation on conditions of secrecy, which perpetuates the exclusion of others from these decisions. Those who have access to government – politicians, church leaders, small business, some unions – need to use those avenues actively and responsibly. The importance of a more critical oppositional stance and creative forms of activism also needs to be understood and supported. Without that, the boundaries are never tested and the seemingly impossible - an alternative development agenda for the Pacific - will never be recognised as something that we can collectively create and achieve.

